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SPECIAL STRUCTURE, FUNCTIONS OF BANK FOR ECONOMIC INITIATIVES

Origin, Structure, Purposes Outlined

Sofia OTECHESTVEN FRONT in Bulgarian 25 Jun 84 p 2

[Article by Andrey Nedyalkov: "Active Assistant of Business Initiative--Newest Bulgarian Bank Discusses its one Year of Activity--Partner of Enterprises and Organizations"]

[Text] On 27 June the first general meeting of the shareholders of the Bank for Economic Initiatives will be held in Sofia. By special decree of the Council of Ministers last year Mineral Bank changed into a Bank for Economic Initiatives. In this manner there appeared in the country's unified banking system along with the Bulgarian National Bank, the Bulgarian Foreign Trade Bank and the State Savings Bank another constituent part, necessary and important with its especially promising functions and tasks.

Although recently formed, this new banking institution in Bulgaria has proved its right to exist by virtue of its active and successful support of highly efficient economic initiatives. The result of the Bulgarian Communist Party's creative and innovative economic policy, the Bank for Economic Initiatives participates directly in the selection and financial support of a number of constructive initiatives of economic enterprises and organizations in Bulgaria. Through the crediting mechanism the bank participates directly in dealing with important problems in the sphere of physical production and stimulates the preparation of counterplans.

The basic tasks that the new bank has to perform are defined by its shareholders. And these are the Bulgarian National Bank, the Bulgarian Foreign Trade Bank and over 250 economic enterprises and organizations from all sectors of the economy, which are participating with almost 50 percent of the charter capital of the joint stock company. Thus far the Bank for Economic Initiatives has accepted for financing about 600 highly efficient economic initiatives with a total value of over 300 million leva. One very important characteristic--more and more it is turning into a banking institution of the traditional type, an active partner of the enterprises and organizations. So far almost 65 percent of all the bank's investments have been channeled into industry and construction, followed by agriculture and the food, wine and tobacco industry with 21 percent,

and about 14 percent in trade, services and tourism. In most cases the bank has financed projects involving the introduction of new technologies, savings of energy, raw and other materials, the rationalization of production etc.

An important task which the bank is now performing is the extending of active financial support on the basis of pro-rata participation in joint enterprises and economic companies.

Worthy of special attention is the fact that there is close and fruitful cooperation between the Bank for Economic Initiatives and the Bulgarian Industrial Economic Association, the okrug industrial economic associations and the organizations incorporated therein.

The Bank for Economic Initiatives is a kind of consultant on their diverse economic activity to the organizations and enterprises to which credits are extended. In evaluating a number of prospective projects special attention is paid to the questions of how the project in question will contribute to the curtailing [sic; "expansion" is called for] of exports, the improvement of the rate of return from exports, the increasing of foreign-exchange receipts, the guaranteeing of high-quality output with real sales potentialities in the international markets etc.

What is more, the Bank for Economic Initiatives will contribute to long-term and timely cooperation among the departments for the purpose of financing highly efficient small and medium enterprises.

First Year's Activity Detailed

Sofia RABOTNICHESKO DELO in Bulgarian 2 Jul 84 p 5

[Article by Ivan Pekhlivanov, chairman of Bulgarian Industrial Economic Association: "Bank in New Role--Investments Producing Great Effect--Expansion and Modernization of Production"]

[Text] Under conditions of the consistent application of the economic approach and its mechanism an important role falls to financial and credit relations and to the banks which are called upon to directly aid and assist economic organizations and enterprises in their overall activity and to discover and utilize all possibilities for intensification of the national economy. That is why, in keeping with the new requirements, in 1982 Mineral Bank was reorganized into a bank for economic initiatives. It has the duty, through pro-rata participation with its own funds and credits, of discovering and encouraging effective initiatives which are not targeted under the plans of the economic organizations and enterprises.

More than a year has passed since the creation of the new bank. Its activity during this period has exceeded advance expectations. Thus far it has financed 600 highly effective initiatives guaranteeing the production over and above the state plan of greatly sought-after goods and services with a total value of 800 leva with a time period for the recovery of capital investment of under 2 years. Twenty-four associations have been established with pro-rata participation.

The basic orientation in the bank's activity is assistance to the economic organizations in the accomplishment of their functions involving exports and foreign-exchange receipts. The proportion of agreed-upon credits in convertible foreign exchange is increasing, which creates an additional opportunity to solve individual problems and expand exports. Especially high numbers have been achieved in the bank-financed measures of the following trusts--Elprom, Instrument Manufacture and Automation, Household Equipment, and Quarry Materials, of the chemical combines Devnya, Gavril Genov in Ruse and Verila, etc.

A distinctive feature of the bank's activity in the realization of these measures is the skillful combination of the purely financial aspect with active direct assistance and teamwork with the economic organizations in the search for, development and implementation of highly efficient initiatives, including those involving higher risk than usual.

The financed projects focus mainly on the introduction of new technologies, savings of energy, raw and other materials, rational workloading of idle production capacities, the creation of additional export resources, etc. Special attention has been given to putting into operation high-efficiency machinery and equipment--the vehicles of scientific and technical progress, whose share of the total credits extended by the bank for capital investment is 72 percent. A fundamental criterion for the determination of projects is the achievement of high quality in the goods and services produced. Thus the Bank for Economic Initiatives makes a real contribution in practice to the execution of the National Party Conference's decisions.

It is a fact worthy of attention that the selection and evaluation of financing for individual measures are made by computer on a competitive basis, which reduces the subjective factor to a minimum and gives an advantage to the actually most efficient economic initiatives. Thus, for example, in the competition held this year for additional capital-investment credits and limits, over 1000 proposals were submitted by the economic organizations and enterprises, 330 of which were rated as having proved high efficiency. The competition for financing economic initiatives of the associations set up in the country for the purpose of promoting and stimulating the voluntary pooling of the physical, financial and labor resources of the economic organizations and enterprises for their more effective utilization was also held in similar manner.

An essential element of the bank's approach to its overall activity is also the rational use of its delegated powers to simplify the established procedures and requirements in the granting of funds for economic initiatives, as well as the direct dependence of the bank's income on the number and quality of implemented measures.

Thus the experience of the Bank for Economic Initiatives gives grounds for approval and further improvement of its approach and work methods, for expansion of its activity and the development of certain new orientations. These will boil down mainly to the following: accelerated establishment of small and medium enterprises as a strategic goal in the development of the economy through financial and credit backing and direct participation in the investment process, in selecting and in monitoring the accomplishment of individual projects;

devising and introducing new ways of helping economic organizations enhance quality and increase exports; using achieved results and ways of cooperation with the economic organizations of the machine-building and chemical sectors, in the food, wine and tobacco industry, in transportation, tourism and other fields; proportional distribution of the bank's activity over a territorial cross section with emphasis on the okrugs with a more poorly developed economy and infrastructure, and especially for development of conurbation systems of the fourth and fifth functional type and in Strandzha-Sakar; expansion and diversification of forms of cooperation with financial and other organizations abroad in order to increase assistance to the economic organizations in the foreign economic area etc.

As a link in the national banking system, the Bank for Economic Initiatives conducts state policy in the field of finance and credit, relying extensively on the economic organizations, on their initiatives and on the proposals of the labor collectives. On the other hand, the actual structure of its capital assets organically combines bank and industrial capital, expressed in their joint stock participation.

The overall activity of the bank is conducted in close collaboration and cooperation with state agencies, ministries, other banks and public organizations that represent and defend the economic interests of the economic organizations and give them comprehensive assistance. These premises lead to the conclusion that a specific form for the development of economic initiatives has been found that has its place in the system of socialist production relations.

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DIVISION OF LABOR SHOULD BENEFIT PRODUCTION, EXPORT STRUCTURE

East Berlin WIRTSCHAFTSWISSENSCHAFT in German No 6, Jun 84 pp 837-853

[Article by H. Blessing, G. Froehlich, G. Grote: "Efficiency of the International Division of Labor for Socialist Economy - Value Theory Foundations and Manifestations"]

[Text] For the GDR, the internal and external present and future reproduction conditions are indivisibly linked to the increasing importance of foreign trade. The speed of scientific-technological advances, the further deepening of socialist economic integration and the severity of the class conflict with imperialism more and more decisively imprint the main lines of the socialist national economy's foreign trade development. The greater internationalization of economic life gives rise more and more to new opportunities for the rational use of natural and social resources and the improvement of the efficiency of social labor.

At the Tenth SED Congress Erich Honecker stressed: "The production of goods promising good returns in terms of foreign exchange and satisfactory sales prospects must be purposefully encouraged. From the aspect of the world market, too, new problems arise, which vitally affect the cost/profit ratio."¹ It is therefore the task of economic research to deepen and expand perceptions on the connection between national reproduction and international economic relations. These certainly include all questions regarding the efficiency of socialist foreign trade as well as the interrelations between national and international values.

Settling these problems is important for management, planning and economic stimulation, including the safeguard of the unity of planning in terms of materials, value and finance. The discussion conducted in this context² has achieved a level allowing us to summarize some common standpoints and to indicate other issues still awaiting elucidation.

As a result of the discussion it is possible better than in the past to explain and find out the evidence capable of being supplied by important indices and categories met in economic practice. Involved are, among others, export profitability, the foreign exchange rate, the "export result" as an element of net profits, and import profitability. By elucidating the question of the statements deliverable by certain indices, we also learn the statements not to be expected from them now or ever. Just lately,

debates in study groups and other discussion meetings have again demonstrated the necessity for properly understanding and interpreting the economic substance of the respective indices.

Common Starting Points

Many contributions to the discussion reflected a consensus on the basic issues of foreign trade efficiency. Among the basic issues about which agreement was universal, were the following:

- The influence of foreign trade relations on the effect of social expenditure in the material and non-material sphere is included in the total efficacy of the socialist national economy.
- The bases of foreign trade efficiency are the utilization of the benefits of the international division of labor, in particular in the process of socialist economic integration, on the basis of the planned deployment of social labor in the own country, while keeping in mind the differentiated extent of the intensity, productivity and complexity in relation to the international standard.
- Foreign trade as well as other kinds of foreign economic relations are important preconditions for economic growth and proportionality, both for the combines and enterprises directly involved in foreign trade and other economic units (component suppliers, research facilities, and others).
- To be used as per plan are the opportunities of foreign trade operations for conserving social labor and raise the national income in demand-appropriate structure for the domestic economy while guaranteeing reciprocal benefits and the equivalence in goods/money relations on international markets.

The participants in the discussion considered the proposition of the comparative benefits arising from the international division of labor and the opportunities arising therefrom for improving the efficiency of foreign trade as an important basis for the appreciation of foreign economic efficiency. This applies to all useful economic effects of foreign economic relations, regardless of the spheres in which they appear.

It seems necessary to us in the following to deal first of all with a few value aspects in connection with foreign trade in order subsequently to be able to describe the actual manifestations in the realization of foreign trade operations, coupled with the attitude to the substantial statement of various indices.

Foreign Trade and Development of the National Income in Terms of Value

We are prefacing our reflections with four hypotheses:

1. Foreign trade creates important conditions for the growth of the total social products and the national income and may, therefore, help speed up accumulation and consumption. Marx commented as follows on foreign

trade on capitalist terms: "Insofar as foreign trade cheapens some of the elements of constant capital, some of the necessary foodstuffs in which the variable capital turns over, it effects a rise in the profit rate by raising the rate of added value and lowers the value of constant capital. It operates altogether in this meaning by permitting the expansion of the ladder of production. It thus speeds accumulation on the one hand, the decline of variable capital against constant capital on the other, and thereby the drop of the profit rate."

2. Foreign trade creates neither value nor functional value. We disregard productive performances in the sphere of circulation (for example socially necessary transportation services). Admittedly, by cutting the time of circulation, foreign trade may contribute to the increase in the effect of the socialist national economy's productive funds.
3. The law of value operates in modified form on the world market. Marx assumes that the value of an item is decided within a country by the labor time required "to achieve any functional value by the available social-normal production conditions and the social average of skill and intensity of labor."⁴ On the world market any work acknowledged as socially necessary in the national scope is considered value forming, if the goods thus produced are an element of exports. At the same time more intensive national labor produces a greater value in the same period of time than less intensive labor, and the more productive national labor is internationally considered the more intensive labor, producing more value than labor in less productive countries. The import of national labor in the emergence of international values for goods of the same type is determined by their share of world exports. In other words: If a country boasts a large share of world exports of certain types of goods, the international value is correspondingly determined by the national (social) value of that country. If a country holds only a minor share in world exports of the respective goods, its influence on their international value is bound to be correspondingly small, indeed in some circumstances may drop to zero. We point out this circumstance in connection with model presentations of the proposition of comparative benefits. The international values of goods are not necessarily determined by the weighted shares of the expenditures of the countries explicitly presented in this arrangement. These countries may be interpreted as part of a world economy with even more countries; the international value is a social value, derived from the weighted share of the expenditure of all countries involved in the export.
4. Close interrelations prevail among national and international values. When studying this interrelationship from the aspect of our own national economy, we must begin with looking at the productivity, intensity and complexity of labor here by comparison to other countries.

Our theoretical base is also provided by the following statement by Marx: "Capital, invested in foreign trade, may show a greater rate of profit, firstly because competition here involves goods manufactured by other countries with fewer production facilities, so that the more advanced country sells its goods above their value, albeit more cheaply than the competing countries. Insofar as the labor of the more advanced

country is utilized here as labor with a greater specific weight, the rate of profit rises because labor--though not paid as being of higher quality--is sold as such. The same ratio may prevail against a country to which goods are sent and from which goods are purchased; that it provides more embodied labor in fact used than it receives, and yet obtains the goods more cheaply than it is able itself to produce. Just as a manufacturer using a new invention before its generalization, sells more cheaply than his competitors and still sells above the individual value of his merchandise, in other words uses the specifically higher productive force of the labor employed by him as added labor."

These remarks by Marx, in particular his indication of the competitive situation with regard to goods "produced with fewer production facilities" abroad and the possibilities of selling an item "above its individual value" as the result of the "specifically higher productive force" of labor must be related to other perceptions in Marx's work. At least we must establish relations first of all with regard to the modification of the law of values on the world market, in other words the evolution of national values to international values, secondly with regard to the evolution of the individual value to market value or social value,⁶ thirdly with regard to the "functional value to social power" and, fourthly, with regard to various processes of the change from surplus profit to basic revenue.⁷ In each case the value represents a social relation, the embodiment of "regulated" social labor time. This latter is directly comparable in the conditions of the developed international division of labor, regardless which step of the evolution of values is examined. It is merely necessary in such a comparison always to begin with the question how much socially necessary labor time is required to reproduce the respective group of goods or products.

The modified operation of the law of values on the world market explains why more productive national labor is considered more intensive with respect to the manufacture and exportation of various goods. According to this law, it produces "in the same period of time more value expressed in more money." As international equivalent, goods may be imported in return, which can be produced at home only at higher cost. Though, therefore, an equivalent exchange occurs on the basis of international values, at the level of the national economy, for example, national labor costs of 10 billion hours "in natura" (that is actually used) for the manufacture of export products may be confronted by labor costs of 11 billion international average units and a cost of 12 billion hours which would be needed for the domestic production of the import goods purchased in exchange. Though in practical terms such a measurement in working hours is not possible in present-day conditions, this example may serve to illustrate the modified effect of the law of values on the world market and the influence arising therefrom on the domestic national economy.

We may draw conclusions from these four hypotheses, concerning the influence of foreign trade on the dimension and structures of value of the total social product and the national income. The interrelations between national

and international values hold a central role in this context. Based on the proposition of comparative benefits, we should strive for a high level of abstraction, initially disregarding the existence of social and modified values.

We find this basic trend: The dimension of the value of a country's total exports is decided by the national expenditure of socially necessary labor time for these products. This corresponds to a specific expenditure of average international units. For example, in country A 80 hours of (national) socially necessary labor time for the production of a specific volume of goods may correspond to an expenditure of 120 hours (national) socially necessary labor in country B, while the world market assigns to this output 100 hours of average international labor. This represents a specific proportion for each respective country by comparison to the world market, according to which 1 average working hour in country A or country B respectively corresponds to the average international unit. The ensuing ratio says that 0.8 national working hours of country A and 1.2 national working hours of country B correspond to 1 hour average international labor. This is the basis of the equivalent exchange on the world market with respect to the different productivity, intensity and complexity of labor in the national economies.

The reduction of national labor units to a standardized international dimension in the guise of the above mentioned proportions definitely does not cancel out the differences in the amount of socially necessary labor between the countries and between the national and international level. The classifications "national social labor time" and "international social labor time" have evolved in history. They maintain a concrete social reciprocal relation and affect one another with regard to their dimensions.

The existence of different national and international costs for the manufacture of a specific volume of goods (functional values) is significant for the practical utilization of comparative benefits of the international division of labor. On this basis variants may be ascertained regarding the development of the structures of production, exports and imports, taking account of the demand at home and on foreign markets. It appears advisable to use economic-mathematical procedures for their calculation (optimalization calculations, for example).

With the help of suitable tools, it is necessary to observe the different criteria of appraisal of embodied and live labor as well as the method of the incorporation of non-recurrent expenditure and the elements of the net product in the calculations. It is essential for such calculations to result in solutions by means of which savings of social labor effect a rise in the net product, in particular the added product.

A comparative benefit to a country arises from the export of products, the relative benefit of which (in terms of working hours) is greater by comparison to the international standard than with regard to products which, by virtue of imports, are no longer manufactured in the country proper. This involves the optimalization of the profile of production, exports

and imports of products which, from a long-range standpoint, could well be produced at home but with regard to which the choice between production or import depends on costs.

Comparative benefits have these implications: Less social labor time must be involved in export products than would be necessary to manufacture at home the import goods acquired in exchange. Consequently, by comparison with domestic production required in the absence of imports, import products can be made available to the national economy at less cost--it is from this aspect that import products are "cheapened."

Closely linked with the relations between national and international values is the question whether the international division of labor contributed by foreign trade is able to contribute to the increase of the national incomes in terms of value. When we consult the example cited (two goods--two countries) on the achievement of comparative benefits, we clearly note that the national labor costs--measured in working hours--for making available a specific volume of functional values, declines for each of the countries involved by virtue of the benefits of the international division of labor. Both the less and the more productive country gain benefits.

The social labor time saved is then used to produce a large volume of functional value. This may be materially employed for the expansion of accumulation and consumption. This greater volume of functional value must also experience a corresponding expression in terms of value. That happens generally when the valuation of the disposable national income is carried out on the basis of constant or comparable prices. (In GDR statistics, for example, the development of the national income is recorded at comparable prices.) The same applies when the calculation is carried out on the basis of international values. In that case it may and indeed must be mentioned that the international division of labor provided by foreign trade increases the national income of a country in terms of value also.

There is here a similarity with an above average rate of development of productivity, intensity and complexity of labor in a country. In that case the dimension of value of the national income rises absolutely and relatively by comparison with other countries. This leads to an improvement of the proportion between a domestic working hour and an average unit of international labor. This is established in the modification of the law of values in its international evolution, as described by Marx. As a result of the rise in labor intensity, the sum total of value rises with the production of a greater volume of functional value per unit of time. With respect to international values, the same applies to the improvement of labor productivity and complexity. If an above average rate of development occurs in a country (not only by means of the international division of labor), an average domestic working hour operates as labor with greater value-creating power than an average unit of international labor.

The question further arises of the influence of the international division of labor (brought about by foreign trade) at the level of the total social product and the national income on the basis of national values. Based on the preceding four fundamental theories, this touches on the relations between national and international values in the field of imports and exports.

As for exports, we must initially point out a significant abstraction often met in literature. This is the assumption that some goods are exclusively imported, not produced to some extent at least in the importing country in the same or comparable manner. In fact the latter is the case, though differently in the various countries; this must be taken into consideration in the discussion of value theory. We must begin with the following proposition: If an item is exclusively imported, the international value is the basis of the process of the formation of economic value. This factor is furthermore linked with the classification of import merchandise in the national value standard if--as is usually the case--the standard of national productivity, intensity and complexity of labor differs from the international standard.

In addition to classification in the national standard of value, we ultimately get the problem of classifying import merchandise in the national value relations. In fact many imported goods are manufactured in the same or similar manner by the importing countries also. How this affects the formation of value depends largely on the ratio of domestic production to imports. Also to be considered is the question whether we are confronted by a permanent and stable division of labor or merely by occasional imports due to short-term capacity bottlenecks.

When we have domestic production and the importation of similar goods, their national values are not exclusively decided by the international value. In these circumstances the international value and the national value represent different dimensions. This is reflected in the fact that differences arise between the domestic import sales price and import costs. Are these differences a reflection of the savings of social labor time obtained by this importation? That would only be the case if the national value of the imported item were decided by the labor time necessary for the domestic production of the respective item in the imported volume. This is bound to be a rare occurrence with regard to the classification of the value of an imported item in the internal value relations. Therefore: Following the realization of the international division of labor (exports and imports), the savings of social labor times are not usually discernible from the differences between national and international values.

All of this changes in the stage of deciding on measures to be realized in the future. If, at that time, differences are discernible between national and international values (in their manifestations of costs and prices), the practical task arises--based on the principle of proportionality and other social needs--to as planned establish a structure of domestic production and imports, which will result in the greatest possible savings of social labor, both embodied and live.

As with imports, we need for exports also to inquire about the average social labor costs for the manufacture of export merchandise by the domestic economy in relation to the average international standard for these items. We must remember here that this ratio may differ very much indeed among the various products. In other words, differences arise both between the average national and international value standard and the value ratios with respect to various items. Arising therefrom is the task to achieve

the necessary increase in exports primarily with goods distinguished by a particularly favorable ratio of national and international social labor costs by comparison to other products.

From the aspect of the formation and realization of value, the question arises of the interrelations between the national and international value of the export merchandise.

Answering this question offers difficulties because, with respect to the differences in the standard of productivity, intensity and complexity of labor among the various countries, it is evident that a social labor time is required to manufacture export goods, which--measured in working hours of the respective country--differs from the labor time deciding the international value. Despite these facts, we must explain in terms of the value theory, why in the national economic total--measured at current prices--export earnings and export costs have a tendency to represent corresponding dimensions of industrial prices plus the costs of circulation.¹⁰ Export earnings must here be ultimately interpreted as the monetary expression of the labor time necessary to this end in the national economy, if we disregard value-price divergences.

At this point the crucial question arises how national and international labor time can be made comparable. Of course this does not remove the actual differences in the productivity, intensity and complexity of labor from one country to the next. On the other hand these are not obvious in the value categories. From the aspect of the value theory, we see here the foundation for the remarks which will be made later in this article with regard to the evidential quality of the index figure export profitability in its relation to the national economic average.

Obviously we are here confronting the problem of the reduction of national and international labor and vice versa the relations between national and international values. This raises further questions. It is necessary, therefore, to establish the conclusions arising therefrom for the national values of the various export goods. Do export products actually have any national value, or should value relations be designed consonant with international values? This has practical import, specially for the formation of the industrial prices of export goods. Independent of the answer to this theoretical problem, we are faced with the necessity with respect to world standard comparisons for various goods to ascertain data which approximately show the actual costs of live and embodied labor in the home economy and other countries.

No reflections in connection with the topic of this article may neglect the fact that the interrelations between national and international values and the decisions to be deduced therefrom must always be considered in connection with the concrete socioeconomic, political and other conditions and requirements. In our relations with nonsocialist countries, for example, we are certainly unable to utilize all potential comparative advantages. The economic war unleashed by imperialism urgently requires us to ensure the technical-economic independence of the socialist national economy vis-a-vis

all attempts at blackmail. Moreover, many proportionality requirements need to be safeguarded. The processes of the division of labor and value development are modified. That involves consequences up to and including price formation for export and import products. While taking into account the totality of concrete internal and external conditions, the SED's economic strategy focuses on the achievement of the greatest possible efficiency.

Aspects of the Development of Values and Socialist Foreign Trade

Our reflections on the development of international value have led us to believe that other pointers from Marx' thoughts should be incorporated, because they appear extremely topical. This applies in particular to the role of a demand-appropriate output, based on the highest scientific-technological standard of products and production processes as well as on factors which determine the social value of the goods.

This is specially important in the current situation of the worldwide transition to socialism, the high degree of internationalization of economic life and the exacerbation of the general crisis of the capitalist system, the interaction of general crisis, structural crisis and cyclical crisis. It is imperative to avoid economic losses and earn profits in the foreign trade of the socialist national economy.

As we all know, Marx demonstrated the determination of the social value by using three examples. He began by assuming that the quantity of the produced and supplied volume of goods remains the same. Thereafter the ratio of labor time and the quantity of goods for the satisfaction of a social need is included.

In the first case, "the market value or social value of the volume of goods--the labor time necessarily involved in it--is determined by the value of the great average mass."¹¹ In the second case "the volume produced in worse conditions reduces the market value or social value."¹² In the third case, "the part produced in the best conditions regulates the market value."¹³

Regarding these three examples and including the social offer of goods of a particular type, three other major statements of Marx' doctrine on social value may be applied to the foreign trade of a socialist national economy.

1. "If the supply of goods at the average value...satisfies normal demand, goods with an individual value below market value achieve an extra added value or surplus profit, while those with an individual value above the market value are unable to realize some of the added value contained in them."¹⁴

2. "Goods produced in the best possible conditions regulate the market value. They (the producer--authors' comment) can sell their goods, for instance, at or near their individual value, while it may happen that goods produced in the worst conditions are unable even to realize their cost prices."¹⁵

3. "Though every single item or particular quantity of a type of goods may include only the social labor required for its production and, considered from this aspect, the market value of this entire type of goods represents necessary labor only, some of the social labor time is wasted if the particular goods are produced in a volume exceeding the social need, and the total goods consequently represent a much smaller quantity of social labor on the market than is in fact contained in it...The opposite happens if the volume of the social labor invested in a particular type of goods is too small for the volume of the particular social need to be satisfied by the product."¹⁶

Basically these perceptions still apply to the involvement of socialist countries on the capitalist world market, albeit the modified value in essence rules there as monopoly price. That is why we must assign a high rank to demand and market research so as to determine the development trends of the social demand and the sales opportunities arising therefrom on foreign markets.

To sum up our thoughts on the evolution of value: Foreign trade has genuine effects on the total social product and the national income in terms of functional value and many influences in terms of value. The latter arises not only from the various national dimensions of exports and imports but also from the role of social value, in other words the ratio of the labor time required to produce an item and the labor time required to satisfy a social need.

While we disregard possible value-price divergences in this article, it is necessary to take this problem into account--based on the role of social value as the center of fluctuation of prices for products of the same type.

Involved here are not simply price-value divergences but the social value upon observance of the functional value in its social power and, over and above this, the modified value at national and international level and the prices to be derived therefrom. The dialectic of functional value and value evidently also modifies the category of equivalent exchange in the sense that modified values are deemed equal. This requires further study.

At the present time it is virtually impossible to concretely answer the question of the extent of value-price divergences. However, in order to provide suggestions for daily practical work, especially for the determination of foreign exchange prices, we point out the absolute necessity for comparing

1. The quality of the products with top international standards;
2. Our own materials and energy use as well as the productivity and intensity of live labor for export goods with the most advanced international standards;
3. The foreign exchange prices earned by our exports with those of other countries.

Mindful of the unity of political, economic and technical conditions, the determination of market-appropriate foreign exchange prices and the assessment of the development trends affecting them assumes special importance in this context.

Manifestations of Economic Useful Effects from the International Division of Labor

Starting from the preceding value theoretical reflections, we will now demonstrate the possibilities arising with respect to the measurement of the economic useful effects of foreign trade operations.

The first question concerns the substantial evidence of the index figure "export profitability on the basis of domestic price" (REP). This index figure is calculated as the ratio of export earnings to costs, measured at enterprise prices and domestic circulation costs including the trading margin of the foreign trade enterprises. Practical experience teaches us that export profitability varies from one item to the next. However, these divergences--weighted with the proportion of the various goods in total exports--just about cancel each other. Average national export profitability tends toward "one." The index figure of export profitability for the individual product, enterprise or combine therefore records the divergence from the national average.

How do we know that export profitability in the national average tends toward "one"? To answer this question we must consult primarily the operation and function of foreign exchange rates (described as conversion ratios in the GDR's commercial goods traffic). The parity of export purchasing power is the orienting center for the determination of a conversion ratio. This manifests itself as the ratio of national costs (at industrial prices and circulation costs) of the exports to be carried out in a specific period of time to the foreign exchange earnings for the same volume of exports in the same period of time. Consequently it expresses the average national costs incurred for earning one unit of foreign exchange (a transferable ruble, for example). We are concerned here with earning such a total of foreign exchange as will enable us to finance our planned imports.

The foreign exchange rate is manifested as the price of a unit of currency, expressed in a unit of another currency. Just as any other price, the foreign exchange conversion rate does not need to reflect the socially necessary costs at each point in time but may keep its validity for a specified period of time. To this end it is necessary for the divergences from the objective base to be within such tolerances as will not adversely affect the measuring function. The determination of the conversion rate may not be arbitrary; it must be subject to objective laws.

It is important to bear in mind that the average national export profitability cannot possibly each day and exactly correspond to the dimension "one"--involved here is a trend continuing for a lengthy period of time.

Why should the costs of earning a unit of foreign exchange, in other words the parity of export purchasing power, represent the center of orientation for foreign exchange conversion ratios? Two basic reasons must be listed. First of all an exporter with an average national standard must be given an opportunity to realize a profit in the range of the national standard. Secondly we need to observe the role of the foreign exchange conversion ratio for imports. In order to correctly measure import costs of every product, we must take as a basis the costs of earning each unit of a foreign exchange arising from exports in the national average.

It is evident from the role of the conversion ratio described, that the material profit of exports for the national economy cannot be ascertained from the average national dimension of the index figure "export profitability."

In earlier discussions about the substance of the index figure "export profitability," the objective basis of the foreign exchange conversion ratios was usually undisputed; other objections were raised instead. It was argued, for example, that no mobilizing effect on the export enterprises could possibly occur if conversion ratios were changed so as to regularly at fixed intervals return average export profitability to "one." In the long run export efforts would not pay. We do not consider this argument valid--in the final effect it invests export profitability with a substance that this index figure cannot possibly have. How do good performances in exports really manifest themselves?

Performance improvements in exports initially and directly result in increased export profitability within the period of validity of a specific conversion ratio. This is reflected in the "profit from exports" of enterprise and combines. As for the long-range development of export profitability, the effects of excellent performances in exports differ. An economic unit which raises its performance faster than the national average may well achieve a rising export profitability.

If, on the other hand, an enterprise fails to keep pace with the rate of the national rise in performance, it will be made aware of its relative backwardness by a declining export profitability index figure--even if it does make progress by comparison to earlier periods.

Sectors, combines and enterprises can and must use the profitability index in its capacity as the quotient of the ratio of export earnings to the domestic costs of the respective exports as an indicator for lowering costs, improving external prices and the structure of exports. It is imperative to raise exports of mainly those products for which this quotient is greatest. Optimization calculations may be used, including in addition to the target function, the most significant factors (such as sales potential and absolutely necessary sales factors by goods and countries). We must also emphasize that the index figure "export profitability on the basis of domestic prices" greater than 1, is unable to provide evidence of the standard of the respective product (including the quality of marketing) by comparison with international standards. The index of export profitability cannot directly measure the divergence from the international standard of labor productivity. The

above mentioned formation of conversion ratios admits evidence on the profitability of exports only by comparison with other products or businesses of the domestic economy. This involves consequences for world standard comparisons pointed out earlier by G. Froehlich.¹⁸

At this stage of our reflections, we would like to summarize our attitude to the evidential value of the index "export rentability" in terms of the national economy: It is the ratio between the (trend of the) average national costs of earning a unit of foreign exchange to the costs (measured in enterprise prices and domestic circulation costs, including the profit margin of the foreign trade enterprise) in the actual instance (product, enterprise, combine).

Also to be deduced from our preceding considerations is the following: In the national overall account it is possible for a difference between total export earnings and export costs measured in domestic prices to be manifested. That, however, is not a monetary manifestation of the difference between national and international values nor of the divergence between the labor productivity of the particular country from international standards. The difference between total export earnings and costs manifested in the national overall account is explained by the difference between the centrally fixed commercial conversion ratios and the actual costs of earning the foreign exchange obtained. This reflects all changes by comparison with the plan, with respect to foreign prices, domestic prices, the goods and regional structure, and other commercial and foreign exchange results.

Another problem involves the proof of economic benefit derived from imports. What are the nationally valid statements furnished by the index figure "import profitability"? It is the ratio between the domestic import sales price and import costs (foreign exchange costs multiplied by the conversion rate). The main function of the import sales price consists in correctly reflecting the socially necessary cost. The evidence provided by import costs is most important here. It expresses the expenditure required in the national average by way of exports to earn the respective foreign exchange. In accordance with this, the main type of industrial sales prices in the GDR consists in the fixing of cost prices as per import costs. This happens either by direct cost price formation for each import transaction or by the formation of a cost price retained for a lengthy period of time. When cost prices are formed directly, the import profitability index always amounts to "one." If domestic prices are formed for a specific period of time on the basis of the so-called initial import, or in the case of capacity-related imports in relation to the domestic prices of a total assortment in effect, divergences from "one" arise. All this must be exactly taken into account in the interpretation and analysis of the index "import profitability."

Let us remember: Just like "export profitability," "import profitability" in its national totality ultimately tends against "one."

We can measure the actual economic useful effects of imports only if we know the "if we had...costs" (of domestic production instead of imports).

Such calculations are indispensable, for example, when decisions are prepared on the expansion of international socialist specialization and cooperation. Such a measurement in terms of quantity of the probable benefit is necessary in order to concentrate our foreign exchange resources on the most efficient variants of the international division of labor.

Such a calculation of "if we had...costs" is neither possible nor needed for the sum total of all imports in a particular period. The settlement of national processes is carried out by means of real earnings and costs, not of "if we had..." figures.

We may summarize as follows our reflections on export and import profitability: The benefits obtained by the international division of labor are not expressed in the difference between the disposable and the produced national income, measured in current prices.

Insofar they arise from foreign trade (the difference between the sum total of the domestic prices of all imported goods and the total of the domestic prices of all exported goods), the divergences between the disposable and the produced national income in a specific period, manifested in practice on the basis of current prices), must be attributed to the following main reasons:

- The issue, borrowing and repayment of loans including the interest involved and the export or import surpluses in the balance of trade linked to this;
- Divergences from the actual costs incurred in earning a unit of foreign exchange from the fixed conversion ratios. This also includes the results of commercial and foreign exchange management operations;
- Divergence of domestic import sales prices from actual import costs.

The statements mentioned relate to calculations at actual and current prices. However, as we are all aware, calculations at comparable prices are also carried out in enterprises and combines as well as at national level.

Though the economic benefits of the international division of labor cannot be fully measured even when we use comparable prices, it is possible thereby to discern significant factors, important for decisionmaking. Factor analysis including the comparison of constant and current prices, for instance, permits us to answer questions such as:

- Was an improvement achieved in the ratio "export earnings/costs" by structural improvements, higher foreign exchange prices, changes of domestic prices, reduction of circulation costs or other factors?
- What effects have arisen by the change in the structure of imports and foreign exchange and domestic prices of various imported goods?

-- How did the terms of trade develop?

Such analyses are likely suitable tools to further expand positive developments and forecast trends as per plan. When carrying out this analysis (comparison of the development at current and comparable prices), it is imperative carefully to keep in mind the effects of the inflation of capitalist currencies. The improvement in the costs of earning a unit of a particular currency by 10 percent, say, does not signify a real national improvement in efficiency if, in the same period of time, the average rate of price increase should amount to 15 percent. In that case the nominal increase in foreign exchange earnings will have served merely to compensate part of the higher import prices.

Another problem is involved in the discussion of the term "exchange effects of foreign trade." It is imperative to avoid and overcome substantial misinterpretations. It is not correct, for example, to relate comparative benefits exclusively to the exchange effects admitting measurement by the indices of export and import profitability, and to deduce therefrom the difference between the produced and the disposable national income.

In terms of the national economy, both export and import profitability tend toward "one." Differentiated indices of export and import profitability of various products, contracts, enterprises and combines arise in the planning and settlement of the circulation processes with other countries. However, the actual dimension of export and import profitability does not have its only source in the sphere of circulation (exchange). Neither value nor added product is created in this sphere. The same applies to the international exchange of goods. In the GDR and other CEMA countries, the results expressed in export and import profitability were for a long time described as direct "useful effects of foreign trade", subsequently as "exchange effects of foreign trade."

The so-called productivity effects (or, to give them their former name: indirect effects), on the other hand, have a direct financial impact by way of declining production costs. Some publications by Soviet writers also describe as "budgetary efficiency of foreign trade" the results characterized by export and import profitability.

When we use the term "exchange effects," we need to be quite clear that this does not only mean performances in the exchange or circulation sphere in the narrower sense but also includes the effects of other qualitative factors such as science and technology, materials management, fixed assets management and labor productivity.

With respect to individual products, it is indispensable to concretely ascertain the influence actually exerted on export profitability by the various factors. Marketing operations are one of many factors. The analysis supplies starting points for concentrating our efforts wherever the most significant improvements in the cost/profit ratio are to be expected. The following main factors affect the amount of the export profitability of various products:

- Product features, scientific-technological standard, benefit to the user;
- The technology, largely determined by the volume of output;
- Distribution of the fixed costs to the production series;
- All types of marketing operations, especially foreign exchange operations and foreign exchange management;
- Cooperation processes and prices of component products;
- Wage standard and standard of other costs by comparison with conditions in the main producing countries;
- Materials use and weight;
- Natural conditions.

All these factors decisively affect the efficiency of exports. As the experiences of combines and enterprises show, the various factors operate very differently in the various industries, combines and products. At the same time, greater export efficiency can be achieved only if the efforts are based on the most important factors, the main links in the chain.

We must here emphasize the special importance of a careful analysis of materials management with respect to the total analysis of export profitability. The term "foreign exchange efficiency" has prevailed in this context. This is due to the fact that most export products include some materials which were either purchased as imports for foreign exchange or could be directly exported for foreign exchange, even without further processing. When "foreign exchange efficiency" is calculated, the foreign exchange profitability of the material used is ascertained to begin with. The cost of the materials is deducted from the foreign exchange earnings, and the amount of the net foreign exchange earnings can then be determined. Subsequently materials costs must be eliminated as regards earnings and costs, so that a net calculation may ascertain the processing profitability of the live labor employed. This will allow important decisions for the future production, export and import structure to be made.

"Export profitability" is a complex classification, and it is evidently necessary in the combines and enterprises very carefully to analyze its realization, likely further development and the possibilities of affecting it.

Conclusions for Future Research

Several research assignments may be derived from our explanations. This applies largely to the following problems:

1. In connection with the increasing internationalization of economic life, it is necessary to study new questions involving the interrelations between national and international values and prices. A specific aspect is the effect of the international division of labor on the value structures. We are confronted with the question, for example, to what extent the realization conditions on external markets affect the dimension of socially necessary costs in the manufacture of export products, and the consequences arising therefrom for the formation of domestic industrial prices and their adjustment to changing circumstances. In this context it is indispensable at all times to take into account the different socioeconomic conditions in the socialist and nonsocialist economic area.
2. The measurement of the profitability of exports and imports in all sectors of the national economy and at various management levels is of prime importance, coupled with the observance of the principle of proportionality and other economic and political requirements. This includes the increasingly perfect mastery of the connection between the conversion ratios of currencies among themselves as well as the development trends of domestic and foreign prices. New questions arise with regard to the determination of the profitability of immaterial performances. In general this involves primarily not just the introduction of new profitability indices but the sensible application of the tools available for the analysis and planning of foreign trade processes.
3. Consonant with the growing role of long-range conceptual planning for deciding the main outlines of production, export and import structures it is imperative increasingly to carry out variant calculations which take into account the changing external and internal conditions. The ascertainment of base data for such prices is therefore gaining a great deal of importance (foreign exchange prices on main markets, production costs and domestic prices, demand development, the timing of the production and introduction on the market of new products and so on).
4. To understand the strong and expanding interrelations between the various stages and elements of the reproduction process with regard to its effects on foreign trade efficiency, it is increasingly urgent to use mathematical models and electronic data processing. This makes for important research assignments with respect to the development and testing of the most suitable models and computer programs.

FOOTNOTES

1. "Bericht des Zentralkomitees der SED an den X. Parteitag der SED, Berichterstatter Erich Honecker" [SED Central Committee Report to the Tenth SED Congress, Reporter: Erich Honecker], Dietz Verlag, Berlin 1981, p. 54.
2. To be indicated are the following written contributions to hand:
G. Froehlich, "A Theoretical Problem of Foreign Trade Efficiency," WIRTSCHAFTSWISSENSCHAFT, No 4/1982, pp 549ff.
H. Blessing/G. Grote, "On the Effect of Foreign Trade Relations on the Efficiency of the Socialist National Economy," WIRTSCHAFTSWISSENSCHAFT, No 9/1982, pp 1317ff.

K. Mueller, "Some Remarks on the Problem of the Exchange Effects in International Trade," WIRTSCHAFTSWISSENSCHAFT, No 10/1982, pp 1504ff.
 S. Thede, "On the Efficiency of Foreign Trade," WIRTSCHAFTSWISSENSCHAFT, No 5/1983, pp 702ff.
 F. Latka, "On the Conception of the Specific Exchange Effects of Foreign Trade," WIRTSCHAFTSWISSENSCHAFT, No 5/1983, pp 709ff.
 H. Mann, "On the Interrelations between National and International Values," Materialien der Internationalen Wissenschaftlichen Konferenz der Hochschule fuer Oekonomie 'Bruno Leuschner' Berlin [Materials of the International Scientific Conference of the Bruno Leuschner College for Economics Berlin, 1982, p 83].
 H.I. Lotze, "Some Remarks on the Problem of Absolute and Comparative Benefits," *ibid*, p 91.

3. K. Marx/F. Engels, Collected Works, Dietz Verlag, Berlin 1956-1968, Vol 25, p 247.
4. K. Marx/F. Engels, Collected Works, as before, Vol 23, p 53.
5. K. Marx/F. Engels, Collected Works, as before, Vol 25, pp 247f.
6. *Ibid*, pp 192ff.
7. *Ibid*, p 6459.
8. *Ibid*, pp 673f.
9. K. Marx/F. Engels, Collected Works, as before, Vol 23, p 584.
10. We will show later that this is indeed the case.
11. K. Marx/F. Engels, Collected Works, as before, Vol 25, p 192.
12. *Ibid*.
13. *Ibid*.
14. *Ibid*, p 188.
15. *Ibid*.
16. *Ibid*, p 197.
17. "Order on the Order of Planning the GDR National Economy 1981-1985, of 28 November 1979," Part o, p 19, GESETZBLATT DER DDR of 1 February 1980, Special Issue No 1020 0.
18. See G. Froehlich, "A Theoretical Problem..." as before, p 561.

DEBATE ON 1983 REFORM PROGRESS REPORT DETAILED

Warsaw ZYCIE GOSPODARCZE in Polish No 28, 8 Jul 84 pp 1,4

[Report by Tomasz Jezioranski on discussion of draft "Report on the Process of Implementation and the Results of the Economic Reform in 1983"; material enclosed between slantlines printed in boldface]

[Text] After a lapse of more than a year, on 18 June another meeting was held of the Commission for Economic Reform Affairs. It was devoted to the discussion of the draft "Report on the Process of Implementation and the Results of the Economic Reform in 1983" that had been prepared by the plenipotentiary. The text of this governmental/societal document was not to be disseminated publicly until it had been approved by the Council of Ministers. Fortunately, the government examined the report on 22 June and, although specific additions were advised, the basic ideas were approved. Consequently, on the next day, the government plenipotentiary for reform affairs, Minister Wladyslaw Baka, already was able to discuss the report at a press conference.

It seems to me that for clarity's sake we ought to depart here from the chronological order and begin the account of the meeting of the Commission for Reform Affairs with that part of the press conference at which Minister Baka described the major ideas of the report, to be specific, its first part of more than 120 pages that contains an evaluation and directional recommendations (the second part, nearly 200 pages long, contains source materials for the report).

Where We Stand in Terms of the Three "S's"

The most general comment to be made, said Minister Baka, is that in 1983 substantial progress was noted in rebuilding the principles of operation of the economy. The share of reform solutions increased and their very shape approached its final form. Greater progress in approaching the model described in the "Reform Directions" was impeded by barriers of an external and internal nature, the latter including in particular the press of social needs and the weighing down of the economy with its 1970's investments ballast.

Last year a characteristic feature was the development of a new set of relations between administrative organs and enterprises. Nonetheless, the scale of changes in this area is still insufficient. In discussing the report Minister Baka said that since the government has adopted the principle of not making any reorganizational changes at the central level, the failure to make sufficient changes is tied in with inadequate field-type changes in some of the services that manage the national economy. Hence the complaints about the unwarranted restricting of enterprise autonomy by the the sector-subsector ministries through the use of the traditional direct methods and about practices in which these ministries take on the function of spokesmen for the supervised units versus the government, even though one of the fundamental reform assumptions is to set up the functions of these organs so that they represent government policy to the supervised units.

/Inadequate progress in the sphere of restructuring the functions of the sector-subsector ministries is linked to the resistance to change in the internal organizational structures that are supposed to perform these new functions. One of the consequences of this situation is the paresis of informational/analytical services that leave their negative stamp on some economic decisions./

In 1983 a fundamental shift occurred in the implementation of the principle of self-government, said Minister Baka. At the close of last year, workforce self-governments existed in 6,123 material production enterprises of a total of 7,813 such enterprises (or 78 percent). However, by the end of the first quarter of 1984, there were employee self-governments in 90 percent of state enterprises, for a total membership of approximately 8 million workers. In 1983, nearly 130,000 people worked in the organs of self-government, including nearly 100,000 that worked on employee councils. Almost 60 percent of the self-government aktiv is made up of workers.

Last year, employee councils appointed 142 directors; all were chosen competitively. Central state organs named 165 directors (of whom 133 were selected in competition) and local organs appointed 186 directors (120 of these were chosen in competition). Overall, of nearly 500 new directors, almost 400 were appointed competitively. Minister Baka stressed that this shows significant progress over the previous year's practices and marks a qualitative change in cadre policy.

In discussing progress in the sphere of strengthening the principles of enterprise autonomy, the plenipotentiary focused on two basic issues: procurement and wage management.

In the field of procurement, /as a result of the broad scope of state control and compulsory intervention, the declining impact of prices and the financial situation of enterprises on procurement potential has been noted. On the other hand, the potential for entering into procurement channels has taken on tremendous importance/ (dependence upon production-task programs and government orders), /as has access to institutions that make procurement decisions./ The cropping up of new organizational levels has extended the procurement cycle and has increased so-called secondary trade between enterprises.

Minister Baka stated that wage management is one of the most crucial fields of enterprise activity. The major focus of enterprises has been on ensuring a wage increase that meets the wage scale of the immediate environment. Hence, the majority of enterprises made payments into the PFAZ [State Vocational Activization Fund] in 1983. The highest percentage of those making such payments was in domestic trade (78 percent). In industry, 68 percent of enterprises made payments into the PFAZ and in construction, only 36 percent made these payments, due to a methodological error in the net production formula.

The large percentage of those paying into the PFAZ, however, does not warrant the statement that the wage policy of enterprises was marked by flightiness or irresponsibility or that the edge of the phase has dulled. A detailed analysis shows that about 45 percent of enterprises made negligible payments while only fewer than 14 percent "went full-force into the PFAZ," paying in almost 55 percent of all remittances (that totaled 72 billion zlotys).

Consequently, it may be said, stressed the plenipotentiary, that last year no general trend occurred toward increasing wages at the cost of high PFAZ obligations. Methodological problems, however, emanate from the fact that no connection can be found between the level of wages and the amount of PFAZ obligations. Awareness of this phenomenon is indispensable for the process of building the proper wage proportions in the economy. The issue takes on key importance in conjunction with the growing interest of enterprises in rebuilding wage systems.

In 1983, some progress was made in strengthening the principle of enterprise self-financing. A basic yardstick in this field is the degree to which credit is used to meet current production needs. And so, the share of working capital credit in financing inventories fell in industry from 49.8 percent to 42.3 percent. These 7.5 percentage points represent a decline in the share of credit of 15 percent. Progress is even more evident if we exclude the food industry alone, where good harvests have led to a large increase in reserves. Hence, in socialized industry, excluding the food industry, the share of working capital credit declined from 47.6 percent to 38.6 percent. In this case, the increase in self-financing of 9 percent represents a nearly 20 percent improvement.

Another important element of self-financing is profit volume and distribution. The balance-sheet profit of socialized enterprises amounted to 1.53 trillion zlotys, i.e., about 40 billion zlotys (2.6 percent) more than in 1982. This volume was made up of the decline in industrial profits by about 60 billion zlotys and in trade by about 3 billion zlotys as well as the growth of profit in other fields amounting to about 95 billion zlotys. The 2.6 percent increase in profit alongside the growth of capital stock formation by more than 20 percent led to substantial changes in the profit distribution structure.

The income tax amounted to about 650 billion zlotys, or approximately 42 percent of the balance-sheet profits; this is more than 106 billion zlotys below figures of the previous year (in industry, this tax was somewhat over 56 percent, or 104 billion zlotys less). This drop was impacted on primarily by the dropping of the stabilizing tax and by the doubling of the volume of tax relief from

38 billion zlotys to over 75 billion zlotys. Out of net profits of about 888 billion zlotys, enterprises designated about 88 billion zlotys for the reserve fund, about 72 billion zlotys for the PFAZ, 326 billion zlotys (30 percent more) for the development fund and 150 billion zlotys for work-force funds (bonuses, social fund and housing). The remainder represented allowances for centralized funds within the subbranch framework.

This data, said Minister Baka, shows that in 1983, positive trends continued in profit distribution, since most of the net profits were designated for developmental purposes. He added that another positive sign was the fact that 53 percent of the foreign-exchange allowances were utilized. This means that dollars earned independently are highly regarded by enterprises.

Recommendations for the Future

The plenipotentiary stated that among the most important economic achievements on which the reform undoubtedly has had an impact, the report includes the adaptation of enterprises to considerable import restrictions, the stepping up of production, the institution of the process of structural changes from the ground up and the evident increase in productivity particularly there where new incentives systems, improved materials management and a favorable enterprise investment structure have been introduced (60 percent of enterprise outlays were designated to purchase machinery and equipment, although the overall index is 40 percent).

The recommendations for the future formulated by the report draft, stressed Minister Baka, emanate from a careful analysis of the positive and negative experiences of the past. In its present form, the report draft lists over 40 such experiences; however, with regard to some of these, the Council of Ministers has ordered further, more thorough study in cooperation with some ministries. This concerns primarily the question of assessing the impact of the reform on overall management efficiency and on incentives systems.

Regarding the first issue, the report draft stresses progress in efficiency measured in real categories--productivity increased by 8 percent, materials-intensiveness dropped by 2 to 3 percent and the level of utilization of production equipment rose by 4 percent. At the same time, Minister Baka added, some specialists note above all the financial aspect of efficiency measures. This area is worse, since profitability has declined and the ratio between capital stock formation and sale versus costs has worsened.

Commenting on these two different viewpoints, Professor Baka pointed out that if one looks at total values, one gets a different picture than the picture derived from closer analysis. And so, if one compares the increase in sales in current prices at 24.5 percent with the increase in prime costs at 24.9 percent and the increase in capital stock formation at 21.9 percent, one may conclude that efficiency has declined. The picture is different, however, and more positive, if one remembers that in the costs structure, material costs rose by 18.9 percent, while nonmaterial costs increased by 33 percent, including an increase of 65 percent for wage taxes and ZUS [Social Security Agency] contributions. The further analyses are indispensable for providing cohesive assessments in real and bookkeeping categories for 1986 through 1990.

On the issue of incentive systems, a basic problem to be resolved lies in the methodological inadequacy of the net production formula. This must be corrected, for, as Minister Baka stressed, it is an incomparably better alternative than the gross production yardstick that, incidentally, was used by 40 percent of enterprises in 1983.

/The other recommendations/ comprised by the report draft and approved by the RM [Council of Ministers] may be grouped into three major areas.

/First,/ there should be better synchronization between the system and economic policy. /Second,/ the scope of operation of particular economic organizational units, decisionmaking procedures and the powers of sector-subsector and functional ministries should be defined and formalized. Finally, /third,/ a substantive and formal "inventory" should be made of the state of reform solutions, i.e., through the end of the first quarter of 1985 it should be determined which solutions will remain unchanged through the 5-year plan and which should be modified, and how. This is so that legislative work tied in with the creation of the system for 1986-1990 is completed before the end of the first half of 1985.

So much for a very concise, if somewhat superficial discussion of the report draft. Better such a basis for discussion of the document in the commission forum, however, than none at all.

Commission chairman, chairman of the Council of Ministers, Army Gen Wojciech Jaruzelski opened the meeting and conducted it until the dinner break. In his brief address, the premier reminded those assembled that the very fact that an assessment was being made of the second year of implementation of the reform proves that the decisions of the Ninth Congress made in 1981 expressed the "sincere desire and steadfast will for improving socioeconomic mechanisms in accordance with the needs of the socialist democracy and for strengthening the socialist character of the state economy."

Key Questions

This idea stands as a reminder that the reform should not be viewed--as is done by some economists--narrowly merely as a means toward greater economic efficiency, but as a very broad group of methods guaranteeing the democratic socioeconomic rebuilding of our lives.

Next, the premier, stressing that the ideas and the basic directions of the reform are being verified with great clarity, formulated several fundamental questions (in his opinion) addressed to the commission members.

--Was the implementation of the reform in accordance with its basic assumptions?

--Was the rate of changes sufficient; in which sectors were there setbacks and delays, and why?

--Was the impact of reform mechanisms strong enough and did it accord with the goals of socioeconomic policy, and particularly does it lead to an increase in production, to increased efficiency, to restoring market stability and to countering inflationary pressure?

--Do the reform mechanisms create sufficient possibilities for resolving the long-term problems of the country's development, particularly in the sphere of technological progress and in the field of economic cooperation with foreign countries?

--What are the most important conditions for the proper continuation of the reform in accordance with the line adopted by the Ninth Congress?

--What are the potential dangers of this process?

Along with the report draft, these questions served to guide the discussion. However, as if in anticipation of one of the major topics of discussion, if not its fundamental current, /the premier stressed that for the proper operation of the reform in enterprises, the methods and ways used in the work of the central and local administration are highly important./ We know, said the premier, that it is not easy for everyone to master new methods of work and the new principles of making use of economic levers to impact on enterprises. /Often it is the case that, under the pressure of instability, mounting tensions and the like, one organ or another interferes too readily in the autonomy an enterprise has just been granted. We are opposed as decisively to this as we are to the erroneous interpretation of the principle of autonomy./

Opening the discussion, government plenipotentiary for reform affairs Minister Wladyslaw Baka noted that the report draft submitted for evaluation expresses a specific compromise between the great diversity of opinion on particular issues determined by the position occupied by the evaluator in the social division of labor, and the indispensable aim of the Plenipotentiary's Office toward objectivism. Hence the caution observed in making both positive and negative judgments. Moreover, added Minister Baka, in analyzing the content and the tone of the report draft, it is worthwhile to keep in mind that the economic performance records of the first months of 1984 verify the positive assessments, while the results of a poll conducted by the Plenipotentiary's Office among a representative group of 10 percent of enterprises lead to a moderately optimistic forecast.

As always, the discussion touched upon a very broad range of issues, from the macroeconomic to those pertaining to narrow subbranches. In accordance with a suggestion included in the premier's guideline questions and in line with a practice in effect throughout the almost 3 years of work of the KdsRG [Commission for Economic Reform Affairs], the discussants focused their main attention on weaknesses and dangers, sharpening the "compromise" evaluations and recommendations contained in the report draft.

Before presenting these major trends of the discussion, however, I must note that /the report draft met with a very favorable response./

To express the assessment of the reform results as briefly as possible, in light of the discussion we would make the following statement: /there is no question but what the reform has had a positive impact on the economy; however, it is impossible to measure this impact./

Professor Jozef Popkiewicz made an outright accusation against the authors of the report for having been overly cautious in assessing this impact "as if in general it were possible to pull out of the crisis without the reform, under the terms of the command-directives system. Anyone that believes this need only be asked which production tasks could be initiated under the former procedure and which duties could be imposed on enterprises alongside the simultaneous need to guarantee them the indispensable funding for implementing these tasks?"

The majority of discussants supported this thesis in various forms, noting that the reform, in spite of all its limitations, has liberated economic initiative and ingenuity and has begun to teach accounting, thereby setting in motion reserves that have not been moved for entire years.

The very fact of the gradual improvement in production performance records along with a favorable trade balance, which means the export of a part of the generated income, proves, stressed Prof Jozef Pajestka, that the reform has freed up a number of reserves. While this fact is to be assessed positively, however, we must keep in mind that these are surface reserves.

Before the Test

And if we can say that the reform has passed this first, important test, we must also be aware that it now faces an incomparably more important, truly decisive test. Stated Prof Pajestka, /the basic criterion of the reform's impact on the economy must be the ability to set in motion deep developmental driving forces./

The weaknesses and dangers of the reform were discussed in this context and they were located in two major areas that are quite closely related, namely: economic policy and the role of economic central headquarters in implementing the reform.

"I see the major source of the shortcomings, the defects and the imperfections of the reform in the defects and inconsistencies of our economic policy," said Prof Jozef Popkiewicz. He also pointed out that the "Reform Directions" passed by the Ninth PZPR Congress confronted economic policy with tasks that would lead to the effectiveness of reform mechanisms, in particular market mechanisms. Thus, economic policy was to enable effective growth. Therefore, "the causes of unfulfilled hopes and various kinds of defects should not be ascribed either to the guideline assumptions or to the temporary solutions imposed out of necessity, but to weaknesses in economic policy."

During the discussion, this idea was illustrated in various ways. The example that attained symbolic status, however, was that of the situation that had developed on the investment front. This idea was stated quite well by Prof Jozef Pajestka and was supportedly wholeheartedly by Prof Jozef Popkiewicz, Prof Jerzy Ozdowski, Prof Eugeniusz Mazurkiewicz, Dr Stefan Jedrychowski and director Teresa Nitkiewicz.

Every economy, especially during a period of crisis, is interested in embarking upon adaptive activities, and all investment funds are designated towards this goal. This results in structural changes that sometimes are very deep changes.

Meanwhile, this process is practically not occurring in Poland, since we are still implementing our investments program from the 1970's, i.e., the program that led us into the deep crisis and that was too capital-, energy-, materials- and import-intensive and, at the same time, was not very pro-export and embraced fields that were not vehicles for up-to-date practices.

How has it happened, asked Prof Pajestka, that an investment program that ought to have been verified initially during the second half of the 1970's and then at the moment of breakdown and during the period of the development of the plan for getting us out of the crisis, has not really been verified until today? And he answered his own question, saying that it was "because the apparatus working in projections offices and in the subbranch ministries was unable to change old ideas. The only test used by the ministerial apparatus was to question which goals could be eliminated, while the question ought to have been a totally different one, that of how to rebuild the technical-economic concept of the entire program from the 1970's."

Without the removal of this hump--not the only one, but the most important one--the reform will not influence developmental concepts for over a dozen years to come. At this time, added Prof Mazurkiewicz, only enterprise investments foster restructuring towards greater efficiency; meanwhile, central investments and quasi-enterprise investments that have a much greater bearing on overall stability preserve the old, inefficient structures.

Divide and Conquer

Another vast area of contact between the reform and economic policy often spoken of is that of supplying enterprises with producer goods, especially raw and fabricated materials. Prof Czeslaw Skowronek spoke at greatest length on this issue, pointing out that in allocations processes, the use of both economic levers and efficiency criteria is negligible, that the existing procurement system by its very nature favors large consumers at the expense of the small, that often make much more effective use of valuable goods, that the role of subsector ministries in procurement processes is growing dangerously, which is out of keeping with the reform assumptions and, finally, that the use of gross yardsticks in the payment of PFAZ obligations will undo the reform.

Professor Pajestka, assessing the procurement issue in the context of stability, observed that state control and distribution were ushered in under the otherwise valid slogan of concern over the restoration of stability. Meanwhile, /there exists the phenomenon that the more successful we are in strengthening stability, the more state control expands./ I am afraid, he said, that /the methods of state control are manifesting a more and more express tendency to take on the features of the previous system./ Why? The Romans noticed this: those that divide, conquer, and they prefer to divide than to organize the market sensibly.

Continuing this idea, Prof Pajestka posed the idea that "the fate of the reform today lies, to an enormous extent, in the hands of the central apparatus." This began another extensive and highly critical discussion. Just as there was much agreement with the opinion of Prof Pajestka that the future of the reform

depends today primarily on the central apparatus, there was much agreement with Prof Aleksander Lukaszewicz's opinion that "the central elements clearly are late in mastering the functions emanating from the reform."

A weakness of the report draft in this context, said Prof Ludwik Bar, is that it claims only legislative delays such as those that concern the operation of the central headquarters. It also states that there is evidence of violations of the reform law, but is silent on the issue of why some laws still do not exist and on the issue of who is violating which law. The document also fails to make a clear statement about the failure to control the observance of the law.

Docent Henryk Sadownik observed in his discussion of this subject that the creation of legal bases is an overture to the indispensable systems-type changes that, unfortunately, have barely begun. /Thus far the new system of operation of the economy has not been characterized by a great ability to issue well-aimed economic decisions,/ and this should be assumed as a major check of the reform. Thus, it would be desirable to relieve the subbranch ministries of the functions they should not perform under the new system by ushering in a full, comprehensive organizational-functional reform of central headquarters.

Next Prof Kazimierz Doktor, chairman of Group I of the commission that deals with the functioning of central organs, noted that the 3-year break in the reform of central headquarters is leaving a very unfavorable stamp not only on the state of the reform and the economy, but also on the social consciousness.

Finally, we cannot fail to note the discussion topic that has been given much attention recently in ZYCIE GOSPODARCZE, namely the issues related to the development of organizational structures in the economy. Let us take a look at several opinions on this issue.

Prof K. Doktor: "We must support all those that oppose the already officially announced draft plans for rebuilding or expanding the middle levels. The reform directions were quite clear here on the bi-level management system. The current expansion of the middle level is taking place to the satisfaction of only those that, having lost their ability to manage the central level, wish to regain it by administrative means. Central steering is indispensable, but perhaps we ought to initiate a public debate over the feasibility of large factory complexes, supervisory councils, large economic organizations and other formulas launched by ministerial leaders that are unable to cope."

Prof A. Lukaszewicz: "Organizational structures in the economy, particularly in industry, can and ought to submit to change if the technological and effectiveness determinants are sufficiently familiar and if the manner of taking them into consideration has been prepared sufficiently. The actions of administrative elements should not be allowed to be performed hastily or arbitrarily. They always must be based upon extensive expert analysis and must abide by the principles of taking into account the opinion of the appropriate self-governing organs."

Minister W. Baka: For the purpose of studying the issue of more highly integrated structures, a special working group has been appointed within the framework of the commission that is to work out such organizational formulas as would meet the needs of the functioning of the economy according to the logic of the reform and the general outline of socioeconomic policy, as well as the technological-economic characteristics of particular structures. We must identify those structures whose creative potential has been far from developed under the existing legal framework of the reform. The infirmities of human nature dictate that people will return to the old, proven methods to solve new problems. At this time, /there is an increase in heated discussions on the question of middle elements; the critical point that is being reached that will tell which direction practice will take will be a very crucial point for the future of the reform./ The government leadership fully understands and is fully aware of the link between organizational structure and the operational logic of the entire economic system with regard to this issue.

Deputy Premier Zbigniew Messner, new deputy chairman of the Commission for Economic Reform Affairs: The issue of organizational structures is often highly emotional, since people remember the last decade and the failures of the WOG [Large Economic Organization] reform. The response is the same with regard to the syndicates that became a fixed structure in Poland; they are opposed across the board. However, if a careful study were made, it surely would be evident that there were syndicates that one could cite as examples of good economic organizations. Under the emotional approach, all attempts to find other structural solutions give rise to the suspicion that so-called middle structures are what is meant. Meanwhile, this is not the case. The only question is whether a modern economy can be based upon the operation of tens, hundreds and thousands of scattered enterprises that have neither penetrative power nor the potential for accumulating funds or for conducting investment policy and future-oriented development. If these enterprises attempt to join together for economic reasons, there does not seem to be anything wrong with this from the viewpoint of the law on enterprises, if what is created continues to be an autonomous enterprise.

No Strokes

First deputy premier of the Planning Commission, Dr Franciszek Kubiczek polemicized with some of the statements contained in the report draft and with some of the discussants. He stated that it is an intellectual excess to attribute all of the pluses to the reform and all of the minuses to economic policy, to ascribe all of the pluses to enterprises and all of the minuses to central headquarters. It is not true that enterprises hold a monopoly on progress and that central headquarters holds a monopoly on conservatism, since both of these attitudes exist at both levels, and the stroking of the reform and enterprises does a terrible disservice to both.

Continuing his address, Minister Kubiczek expressed the opinion that the realities do not allow for restricting state control, that the assessment regarding the minimal impact of contract prices on the increase in inflation contained in the report draft is controversial at the very least and that the Planning Commission has discerned that the optimistic forecasts of enterprises

contained in the report draft are an illusion that has no material basis.

Addressing these comments, Minister W. Baka stated that it was not the intent of the writers of the report to idealize the reform. /The reform is an undertaking that is binding upon all economic organizational units and the degree to which it succeeds /he stressed/ is not only up to the plenipotentiary, but also up to all elements, beginning with the Planning Commission. It is true, however, that it is easier to define principles than to conduct economic policy. Nonetheless, enterprises cannot be treated in the same manner as administrative organs. Thus, while we do not cultivate the technique of stroking enterprises, we do believe that, in the first place, enterprises work according to the conditions created for them by the administration and, in the second place, our criticism of administrative organs (including the Plenipotentiary's Office) must be significantly greater./

Nor did Minister Baka share the view of the danger to the investments front posed by enterprises. He likewise expressed the opinion that the view of the disparity that exists between the rhythm of the restoration of stability and the expanding scale of compulsory intervention and the state control of procurement is not unwarranted.

Closing the deliberations, Deputy Premier Z. Messner categorically denied the rumors that some government leaders are opposed to the reform. He stressed-- we are all interested in the most rapid, best implementation possible of the reform; however, "we must always keep in mind that this reform is not a goal, but a means to achieving effective management."

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PRODUCER COOPERATIVE OFFICIALS DISCUSS GOALS, ACTIVITIES

Comments of Deputy Chairman

Warsaw ZIELONY SZTANDAR in Polish 24 Jun 84 pp 3,4

[Interview with Lucjan Kowalski, deputy chairman of Central Union of Agricultural Producer Cooperatives [CZRSP], by Tomasz Kita; date and location of interview not given]

[Text] [Question] There was a time when new cooperatives were sprouting up like mushrooms after a rain. Now there is talk of their decline...

[Answer] At the end of the 1970's, there was a tremendous increase in the number of cooperatives. That is why 40 percent of our cooperatives have been in existence for 5 years or less. Some of these newest ones could not withstand the changed economic conditions and 124 units have been liquidated formally and have combined with the stronger RSP's [Agricultural Producer Cooperatives]. The membership has declined by 7.4 percent. The cooperatives have returned 38,000 hectares to the PFZ [State Land Fund]. These were small individual plots located far from cooperative fields. Thanks to the return of these lands, the land expanse has improved. The approaches are shorter, and thus both fuel and time are saved.

Currently, 2,239 cooperatives farm as teams. The total membership of these cooperatives is 146,500. Work in these cooperatives is the major source of upkeep for 109,000 families, for a total of 465,000 people, including spouses, children and other dependents. The teams farm 700,000 hectares, or 3.8 percent of the country's arable land. Each cooperative averages 355 hectares and 67 members.

Economically, the cooperatives have gained considerable strength. Three years ago, there were 800 RSP's whose income was not enough to make workers' and statutory fund payments, while now there are only 56 such RSP's. The share of cooperative funds in financing ongoing economic activity is growing, and cooperative working capital and investment funds are growing.

Working capital credit has become more expensive: interest is now 9 percent instead of 2 percent. Meanwhile, the government has aided the weaker cooperatives by suspending the repayment of investment credit granted before 1 July 1981.

Since government programs have assigned to cooperatives the building of farms supplied with foreign fodder and these facilities cost 21 billion zlotys, the cooperative farmers could not be left to their own fate. While they will repay, the payment will be delayed until the fodder situation enables these facilities to be used.

After American fodder deliveries stopped, we had 2,300 empty places on our broiling chicken farms. Now there are 300, since we have expanded greatly our egg production. We also raise geese, turkeys and pigs there.

If we had a greater supply of our own barley available, we would have something to feed butcher chickens. We merely would have to pass the grain through a huller, oil it and add premixed preparations. While we have plenty of rye, rye is unsuitable for feeding poultry. Despite various problems, this year we will produce 60,000 tons of broilers and this type of production will increase during the coming years.

[Question] What is the situation with curtailed investments?

[Answer] Although they have progressed to a high level of completion, we are able to receive credit for only a small portion of them. More than two-thirds of the projects have been classed as "dropped investments." We have 3.1 billion zlotys frozen in these investments. The minister of finances has remitted 213 million zlotys of the debt incurred on these projects. We would like to apply for a revision of the bank's position on dropped investments and to embark upon the effort to complete them and to begin production.

[Question] What is the total RSP investment debt?

[Answer] It is about 56 billion zlotys. Since the value of fixed assets is 105 billion zlotys, the difference may be treated as a cooperative fixed asset.

[Question] Do you have too little land?

[Answer] Yes, as a whole, since each family averages 6 hectares. That is why livestock production has dominated over crop production. Now, when we can count primarily upon our own fodder, crop production is beginning to grow. For a long time, the share of grain in the growing structure of RSP wavered between 45 and 47 percent. Now it has grown to 59.4 percent.

We are trying to step up grain production. Last year, the average yield for four grains was 29.2 qu/ha in the RSP's, while it was 27.4 qu/ha in all of farming. Compared with other sectors, we have the largest stock of slaughter hogs per 100 hectares of cropland. The RSP's supply 8.6 percent of all grain procured in Poland, 5.8 percent of all livestock and 6.8 percent of all eggs, or considerably more than expected from the RSP share of lands.

[Question] Some people say that you are still receiving subsidies...

[Answer] Yes--for nurseries and preschools, like similar state institutions. We receive them to pay research assistants and to compensate for the difference

in seed and animal embryo prices and for the transporting and spreading of soil lime, just like the PGR's [State Farms] and private farmers. The production of commercial fodders is also subsidized, just as it is at the BACUTIL Plant.

[Question] What if you produce these mixtures for your own use?

[Answer] The RSP is bound by the same rules as others. It is not privileged where the distribution of high-protein concentrated feed is concerned. We are trying to produce these concentrates ourselves. At present, we produce about 10,000 tons per year. The RSP's have 201 fodder mixing plants that use only 58.5 percent of their capacity due to a shortage of parts. Whoever has a good breeding farm and prepares good fodder mixtures profits. He profits in the sense that he no longer incurs the costs of transporting fodder, his increases are improved and he does not have to worry about feed poisoning.

[Question] Why are the cooperatives pushing their people into the factories?

[Answer] Some members of cooperatives yield to the pressure of factory directors. These cases are not numerous. The income is greatest, however, where farm production is not neglected. The truth, however, is that in order to achieve a high rate of farm production, one must aid oneself through non-farm earnings. In farming, the turnover period for outlays incurred is quite lengthy.

Some coproduce with industry, others render construction services and still others process fruit, vegetables and the like, of which we are highly supportive. Today there are 132 plants in operation that supplied 92,000 tons of processed products last year, including 35,000 for export. There is no problem in finding a market, since our products are of very high quality. Strawberries and cucumbers picked in the morning are in jars within a few hours.

[Question] Is the economic reform yielding results?

[Answer] Of course. When it is a question of one's own bread and salt, one counts every zloty and tries to save money. There is no pressure from the cooperatives on the provincial governors to allot more machinery and vehicles. Today a JELCZ with a trailer costs more than 4 million zlotys; not every RSP can afford one. Marked improvement has occurred at the RSP in the area of repairing and maintaining equipment. Military operational groups have helped bring this about.

[Question] But the number of those employed in nonproduction areas rose from 16.8 percent in 1981 to 17.4 percent in 1983...

[Answer] Despite severe restrictions on reports and other information for the administrative authorities, there have been increases. These restrictions do not come down from the top: they are decided upon by boards and general cooperative gatherings. As for the inspectors employed by the RSP Central Union, the new situation of these 214 individuals, outside the provincial unions, is passing the test. They are working more productively and no one is

putting pressure on them. After a time we may consider whether we need so many of them.

[Question] How are the cooperatives that are not making a profit managing?

[Answer] At all provincial delegates' congresses, a resolution was passed to create a self-aid fund. The fund will be used to grant no-interest loans. Obviously, the cooperative boards themselves should demonstrate their own enterprising nature and resourcefulness.

I should like to stress that the vast majority of cooperatives are achieving positive results. The income for distribution among members rose from 1981 to 1983 by 81.6 percent. Last year, the average value of a workday on the national level was 830 zlotys--not a paltry sum. However, not all RSP's are able to achieve this.

[Questions] On what issues is the discussion at the coming Ninth National Delegates' Conference expected to focus?

[Answer] Certainly, the present credit system, which is very rigorous, will be questioned. In order to receive credit, 70 percent of the funds for an investment must come out of the enterprise pocket. Moreover, the credit must be repaid in 5 years. These are high thresholds for the cooperative farming under average conditions. Some ask why, when the interest rates are so high, credit is so restricted. Is such a tight money policy necessary?

Another burning issue is that of the sharp escalation in price of industrial means of production, alongside continued fixed prices for most farm products. There may be many bitter words over this, supported by individual examples.

In this context, let us not ignore the issue of the future of the newest cooperatives that were promised a great deal when they were organized. Then along came the economic reform. There were no more [text illegible] programs for farming PFZ lands; there was no more farm construction and the like. Today we must give thought to ways to aid those that are in difficulties through no fault of their own. There must be some continuity to state aid, so that valuable undertakings can be preserved.

I believe that the delegates will demand the creation of favorable conditions for the development of housing construction. About 9,000 cooperative families still do not have their own living quarters.

[Question] How would you define concisely the frame of mind of the members of cooperatives on the eve of the congress?

[Answer] I believe that the putting of all three farming sectors on an equal footing has done us no harm. We have regained our image in full. No one accuses us today of living off someone else. The economic reform has seasoned us. We are surer of ourselves today. We are able to demonstrate the superiority of team management both in the production sphere and in the existential and living conditions of our cooperative members.

[Interviewer] Thank you for the interview.

Comments of Board Chairman

Warsaw GROMADA-ROLNIK POLSKI in Polish 26 Jun 84 p 3

[Interview with Franciszek Teklinski, chairman of the board, Central Union of Agricultural Producer Cooperatives [CZRSP], by Grzegorz Krekora; date and location of interview not given]

[Text] [Question] Mr Chairman, I asked a farmer I know about the cooperatives. He replied that you are millionaires, that you are lining your pockets by producing foil bags and alcoholic spirits and that the agricultural producers' cooperative is only a facade.

[Answer] That is ridiculous, so ridiculous that it offends us. Your friend knows nothing about cooperatives, and lack of knowledge always leads to false opinions.

[Question] In your opinion, what is the RSP [Agricultural Producers' Cooperative]?

[Answer] It is an organization of freely contracted farmers that decide to work the land as a team. Its voluntary nature, initiative and autonomy are most precious to the cooperative. They determine the vigorous development of the farm--the joint property of the RSP members.

[Question] What about your being millionaires--is this praise or blame?

[Answer] That is the question exactly. According to our statistics, in 60 percent of the RSP's wages are lower than in units of the socialized economy. Besides, if the members of a profitable cooperative make 1,000 zlotys a day, why should they be ashamed of this? We do not make our money through speculation or embezzlement, but through everyday hard work. The regulations of the new law on cooperatives make it clear that emoluments depend on earned income and that the amount of income for distribution among members may be determined only by the General Assembly. Please observe that so-called nonfarm production amounts to under 30 percent of our income. At the same time, it is indispensable with regard to the supplementary production of implements, e.g., harrows and plows, the major repair of tractors, the recultivation of meadowlands, for brick products, tiles and the like. Incidentally, the consumer of such services is generally the neighboring village. For example, when the fruit growers were hit by a harvest "crisis" and thousands of tons of apples were in danger of being lost, our distillery came to their aid. Should we be praised or blamed for having processed 33,000 tons of apples last fall?

[Question] But does not mending finances in this way weaken interest in the farm?

[Answer] On the contrary. For many cooperatives, it is a crucial method of securing oneself against losses and, thereby, of upholding livestock raising and the increase in crop production. On the national average, the RSP's are

achieving farming results that are at the middle level for all of agriculture, but they are supplying considerably more than other farms in terms of farm products for purchase. And we farm only about 700,000 hectares of cropland, and they are relatively the poorest soils. To put it very briefly, the reform gave us a free hand in choosing the most profitable work. Hence the ordering of livestock-raising volumes in cooperatives and the organization of this work to accommodate the supplying of fodder from cooperative fields.

[Question] This confronts the RSP's with their biggest problem: the land shortage.

[Answer] It is true that during the last 3 years cooperatives have lost about 60,000 hectares. Cost-effectiveness accounting forced them to return or sell distant and small plots and those that were too expensive to farm. At the present time, cooperatives are interested only in land that lies near their own expanse of fields. We believe that the consolidation of lands will enable us to farm an added million hectares. Improving the expanse of the farm is of tremendous economic importance. Sometimes it happens that the increase in area enables the use of the proper agricultural technology. I know of a cooperative in Tarnow that purchased land to enlarge its complex and is now making successful use of agricultural engineering services. The cost of spraying 85 hectares of wheat was 100,000 zlotys, but the effect is what counts. If this cooperative harvests an added 8 quintals of grain per hectare, its profits will double.

[Question] Then what seems expensive actually may be cheap. But let us return to profits. Some cooperatives are wallowing in them while others are wallowing in poverty...

[Answer] I do not deny that this is a serious problem. The economically weak cooperatives generally are those that farm under the worst conditions, on light fifth and sixth class soils that are scattered about the fields in checkerboard fashion. This fact is that the reform principles in agriculture do not provide for such farms.

[Question] Given the current prices for machinery and growing costs, will they be able to get out of the red?

[Answer] It is not a simple matter. That is why we are setting the cooperative aid system. The recently created Cooperative Mutual Aid Fund is to serve this end. Last year, the Central Union lent cooperatives a total of 500 million zlotys. We grant these loans under the condition that the given cooperative prepare a program of rapid improvement in management, that the RSP members promise to increase their shares and that the given cooperative obtain a guarantee from other RSP's. According to the provisions of the law, the Cooperative Law of the Ninth National RSP Delegates' Conference sets up the RSP development fund and defines the principles of managing this fund.

[Question] Is this not characteristic of the reform? Mr Chairman, it is a good thing that cooperatives are taking the initiative. Often I hear that the members of cooperatives are very irritated at the lack of such initiative in the farming community.

[Answer] It is true, for some of our contractors think that the reform is a mess.

[Question] Please give some concrete examples.

[Answer] Let us take the issues of procurement and the distribution lists for building materials. The situation regarding distribution lists is such that cooperatives must play the role of petitioner at the end of the line; often the acquisition of materials in short supply requires long-term stealthy moves and measures. Often we must find ourselves a procurement base in the trash heap. It is not unusual for some farm technical services plants to set a 35 percent profit margin on the sale of reinforcing steel, for example.

[Question] I suspect that you do not look kindly on such agents.

[Answer] We cannot give them a blank stare. Recently, the chairman of an Opole RSP told me an interesting story. His truck filled with eggs for sale once got to the market later than usual. His spot was taken over immediately by a truck from Poldrob and the housewives began forming a queue near the truck. When the cooperative truck reached the market several minutes later, the queue's attention was diverted quickly to him. Why? Because the eggs from this cooperative have a good reputation and they are fresh and cheap. Of late, the export of our sheep and slaughter cattle have become more important. The cooperatives proposed entering into a partnership with the ANIMEKS Import-Export Central Agency and it is working out well.

[Question] The goal of every cooperative is to be self-financing. But if, in a given year, there is not enough money to finish building a cow shed, what then?

[Answer] Then the cooperative may apply to the bank for credit. However, it is "very difficult" to get a loan today, particularly for investments. The new credit regulations often are themselves a barrier to increasing cooperative farm production. The requirement is that we must finance 70 percent of an investment out of our own funds. The interest rates on credit have increased considerably and the repayment period has been shortened to 5 years. Clearly, these steps are very difficult to climb, even for the RSP "older generation." What about new RSP's? Such credit terms for farming completely discourage young farmers from setting up cooperatives.

[Question] Mr Chairman, we have been speaking of problems, but in the final analysis, people determine the success of the cooperative, including those people that run them. Our winners of the Stanislaw Staszic Progress in Agriculture Prize include the following members of cooperatives: Marian Ilnicki, chairman of the RKS [expansion unavailable] in Witkowo, Stanislaw Przybylek, chairman of the PRZELOM RSP in Bujakow and Wladyslaw Grabowski, chairman of the Wilamowo RSP. We realize that people such as these help to create the success of the cooperative movement. Whether there will be others to succeed these people is the question. Mr Chairman, let me put this question simply: without enlightened people, will the cooperatives gain the village?

[Answer] I think it is very important that nearly half our members are young people. They will not leave us because the cooperative offers them prospects for interesting--productive and well organized--work. Such work enables them to live according to their needs and aspirations today. I am sure that all members of cooperatives think of building the modern and beautiful village, and that this kind of thinking comes easy to them.

CONTINUATION OF CONSTRUCTION SERVICES FOR IRAQ ANTICIPATED

Warsaw RYNKI ZAGRANICZNE in Polish 2 Jun 84 p 8

[Interview with Jozef Zelaskiewicz, deputy commercial counselor in Iraq, by Halina Binczak: "Iraq: A Market We Must Stay In"]

[Text] Question: Are construction services still the biggest item in our sales to Iraq?

Answer: Last year, they accounted for 70 percent--or more than \$200 million--of our total exports to Iraq, worth some \$300 million.

Question: What projects are built there by Polish enterprises?

Answer: We are involved in around 60 construction and service contracts. They include turnkey projects built by Polimex-Cekop--three cellular concrete plants (in Baghdad, Basrah, and Kerbala) and a limestone works. In a consortium with West Germany's Protinas, Polimex-Cekop is building eight poultry-farm complexes, worth together several dozen millions of dollars. The biggest contract--worth \$300 million--has been won by Dromex, and provides for the construction of a 145 km section of the Massirijah-Rumaila expressway. This is a six-lane way, with bridges, flyovers, and complete infrastructure. We are now in the process of negotiating the takeover of a neighboring section, worth \$300 million, built so far by Filipinos. Next to these major contracts for turnkey facilities, we are providing assembly services as subcontractors to West German, Belgian and Japanese companies. For Japan's Mitsubishi, we have built foundations for a huge gas works. To an order from Thyssen, Poland's Mostostal is assembling steel structures. Similar forms of cooperation are maintained with Belgium's Sybeta and France's Technip and Merlin-Gerin. There are also many contracts in yet another group counted towards construction exports--the specialist services rendered by Polish teams at various projects. At the end of 1983, there were some 8,500 Poles working at building sites all over Iraq.

Separate mention is due to Budimex's contracts for land improvement for agricultural purposes. These are complex operations, requiring adequate equipment and good organization. Located between the Euphrates and the Tigris, the projects are handled by specialists from our farm-construction enterprises.

Question: Do we execute our contracts on time? Unless I am mistaken, the three cellular-concrete plants were originally scheduled for completion in 1981.

Answer: The turnkey projects were as a rule not completed on time--for a number of reasons. First, carrying elements for a complete factory over a distance of 5,000 km by car, rail and sea is no easy matter. Following the outbreak of the Gulf War in September 1980, all Iraqi ports were closed. Dromex, for example, had its equipment ready for shipment from Gdynia, and all arrangements had to be changed. There was a similar case with the sending of personnel when Baghdad airport was closed. Another problem has to do with industrial cooperation. He who wants to build a factory needs scores of suppliers. If the shipment of one or another piece of equipment is delayed, so is the whole project. The third group, which I would call subjective factors, includes delays in building-site preparation, delayed organizational decisions, lack of experience, etc. It was the coincidence of all these factors that caused delays in the completion of turnkey projects.

Question: Can it be concluded that enterprises which seek orders as general contractors are not always adequately prepared as far as organization and saturation with equipment is concerned, and that this is the reason why delays occur right at the start of a project?

Answer: These are precisely the subjective, internal causes of delays. We no doubt made a number of mistakes at the beginning of our construction exports to Iraq. Usually, at a corporation which submits an offer, concludes a contract and prepares its implementation, many measures and organizational decisions are made in advance. The reverse was true with our enterprises. It used to be that a contract was signed, a glass of champagne was drunk, and only then it was being discussed for weeks, and even months, who should be assigned the general contractor functions in respect to Polish domestic suppliers. It was only after the selection that preparatory and organizational arrangements were set in motion, meaning a loss of time up to a year, right at the start. But after paying this price of inexperience, we now have a pool of seasoned managers, engineers and foremen, whose expertise must not be wasted.

Question: If contract implementation is delayed, hard-currency costs go up and penalty fees have to be paid. Do you think that we made hard-currency profit on the delayed Iraqi contracts? Were there any deals which brought us losses?

Answer: The saying "time is money" is nowhere as relevant as in exports. Even a half-year's delay results in lower hard-currency earnings. But I understand your question as one of whether it is at all profitable for us to export construction services. I want to say that there are many contracts--especially those providing for assembly operations which are very profitable. This is true, for example, of subcontracts to foreign companies which hire our electricians, fitters, plumbers, or specialists in steel-structure assembling. Our foreign trade agencies receive for them DM 30 per manhour, next to the agencies' own profits. This kind of export is very profitable. But

we should be very careful whenever equipment, materials, and transport services have to be purchased for hard currencies, and whenever extensive organizational structures have to be created. Some of such undertakings may be inefficient. We discourage enterprises from getting involved in capital-intensive contracts.

Question: Have any analyses been made on the profitability of the already completed turnkey projects--five pumping stations built by Polimex-Cekop and the Basrah dam built by Budimex?

Answer: It is true that the construction of the Basrah dam was delayed by 2 years, but both our offer and the contract were very well prepared. Some technical improvements were introduced, and as a result the project brought us several millions of hard-currency profit. It was a different matter with the pumping stations, some of which were poorly managed, making losses for us. But I must say--and this is not for the sake of courtesy--that the wealth of experience accumulated at these projects by Polimex-Cekop and Instaleksport should be drawn upon in the future.

Question: It is sometimes claimed that our construction projects abroad benefit those employed at them while making losses for the enterprises. How do you assess the overall profitability of our construction exports to Iraq?

Answer: Our experience shows that the efficiency of large turnkey projects, involving huge shipments of equipment and purchases of materials, is very low and that they bring in very low profits indeed. But construction services and assembly projects are highly profitable. So I think that we should reassess our specialties and focus on these two groups, while abandoning those which are of no value to us. For example, the specialist operations carried out by Elektromontaz, Instaleksport and Mostostal-Eksport are highly profitable--and praised by foreign contractors. This kind of exports should be continued. But as for the large capital projects, the past experience warrants an opinion that they should be jettisoned. The exception is the Dromex-built expressway, where the wonderful organization and the scale of the project should bring not only prestige but profits as well. In future, detailed analysis will have to be made before committing ourselves to any turnkey project.

Of great importance here will also be the introduction of the January executive order of the Council of Ministers, authorizing the Construction Minister to issue permits for foreign operations.

Question: After 3 years of war, Iraq suffers financial difficulties and has to scale down investment. Competition is getting tougher, and it is the investment credit as well as competitive prices that tips the scale. Against this background, what is the situation of Polish enterprises in Iraq?

Answer: ...There are several reasons why we should stick to this market, despite the current difficulties. First, Iraq moved last year to the top of the list of Poland's trading partners among developing nations. Previously, it was third, after Brazil and Libya. As I already mentioned, the turnover is of the order of \$300 billion. Second, this is a country with big prospects.

Question: If it only manages to resume oil exports on the previous scale?

Answer: Yes. When the war ends, there will be an investment boom there, similar to that of 1981 when Iraq awarded contracts worth together \$21 billion. Now, the country indeed has financial troubles, but contracts have been signed for the construction of two new pipelines--running across Saudi Arabia and Jordania. Oil will flow through them in just 2 years' time.

Iraq has asked our government, through the intermediary of our embassy and commercial counselor's office, to have the payment postponed by 2 years. Talks on this subject are underway, and I am positive they will bring concrete effects. Poland needs oil, and Iraq will be capable of selling it to us after 2 years. And it would be hard to imagine capital goods exports without some crediting.

Question: Such agreements on the deferment of payment were already signed by companies from many countries, including Japan, West Germany and France, which preferred to wait out the bad times to losing the market.

Answer: Yes, and such agreements were signed by firms from socialist countries, too. It may be added that Iraq seeks credit only for that part of investment projects which must be covered with hard currencies. Theoretically, if we signed a contract involving exclusively the zloty expenses, the credit would also be granted in zlotys.

There is one more reason why we should not leave the market. In order to carry out construction projects in Iraq, we had to buy more than \$150 million worth of equipment and transport vehicles. This equipment is only partially worn, and should be further employed after the present contracts are completed.

Question: Were any new Iraqi contracts signed or negotiating of late, next to the already mentioned bid by Dromex to take over an expressway section?

Answer: Contracts were signed in the past half a year for the running of some production facilities, e.g., a cement plant near Kirkuk. As for other opportunities, I think we should wait till ways of project financing are agreed at a high level.

CSO: 2600/1078

FOREIGN TRADE OFFICIAL VIEWS IMPORT NECESSITIES

LD041319 Warsaw Domestic Service in Polish 1005 GMT 4 Jul 84

[Text] I am sure that you will be interested in the plans for the import of food and industrial articles in the second half of this year, stated Director Wldyslaw Szczepankowski from the Ministry of Foreign Trade.

[Begin recording] [Szczepankowski] Deliveries of coffee will be continued--4,000 metric tons from Mexico and about 3,000 metric tons from Angola--so that more coffee will be available on the market. Naturally, there will be additional quantities of tea. Here I must say that in the first half of this year we imported about 17,000 metric tons of tea. This is a record quantity. Further amounts will be imported, mainly from the Soviet Union, and from the Chinese People's Republic. We will also import about 50,000 metric tons of rice from the Soviet Union. These deliveries will fully satisfy our demand, which this year will amount to over 70,000 or even 80,000 metric tons. We have also bought about 1,000 metric tons of paper from India.

[Reporter] You did not say anything about meat.

[Szczepankowski] The quantity imported in the first half of this year was reported to be 100,000 metric tons. Actual deliveries will amount to about 98,000 metric tons. This is mainly pork and a small quantity of poultry. In the second half of this year we expect that import deliveries will also come to several score thousand metric tons; but we are relying on meat imports taking place mainly in the first half of the year. We expect that in the second half of the year procurement at home will be improved thus less will be required from import. The main countries which deliver meat to us are Hungary, Czechoslovakia, and a small quantity from Romania.

[Reporter] And the Chinese People's Republic?

[Szczepankowski] Yes, we do import a certain quantity of meat from there and it has already reached the market.

[Reporter] What about raw materials and industrial goods? Let us start with raw materials, oil, gasoline, and what else?

[Szczepankowski] Besides normal deliveries of oil from the Soviet Union via pipeline, additional quantities have been purchased from the Soviet Union and from Algeria, Iraq and Iran. There also will be systematic deliveries of gasoline from the GDR, Bulgaria, and recently from Austria. We have also bought additional quantities of bottled gas, which is needed for tourists. This year we expect about 470,000 refrigerators and 150,000 washing machines from socialist countries. There will be deliveries of textiles and we will import certain cotton goods from the Chinese People's Republic. [end recording]

CSO: 2600/1079

POLISH PLANNING OFFICIAL INTERVIEWED ON EXPORTS

PM051620 Katowice DZIENNIK ZACHODNI in Polish 19 Jun 84 pp 3, 4

[Interview with Stanislaw Dlugosz, deputy chairman of the Council of Ministers Planning Commission, by Teresa Sojkowa, DZIENNIK ZACHODNI correspondent; date and place not specified]

[Text] [Question] Everything which is currently being said or written about the state of our exports resembles not so much a straightforward discourse or treatise as a sounding of the alarm, a desperate appeal for exporting more. Given our present economic situation where the annual production increase amounts to only a few percent, is it feasible to increase our exports by some dozen, or several dozen percent?

[Answer] Perhaps it is a slight exaggeration to say that we are sounding the alarm, but it is true that the external circumstances which we can anticipate over the next few years, both in the sphere of our relations with the socialist countries and the developed capitalist countries--provided that economic cooperation with the latter is normalized--suggest that we must tackle the question of our exports much more energetically. There are two reasons for this.

First, we have a highly industrialized economy, even if not everybody appreciates this--and therefore we have strong links with the foreign markets. This is, incidentally, a highly rational method of optimizing the outcome of all our economic activity. Thus, if we need producer goods, the supply of which is connected with scientific and technological development, we will have to pay for them somehow. In the structure of our balance of payments exports are the principal source of income, and therefore we must increase them to a maximum degree in the most effective way possible.

Second, it is no secret that we have been basing our development on a policy of credits and that we have debts in the West. Also, although to a lesser extent, we are in debt with our socialist partners. Every debt needs to be paid off, and in our specific situation the means for that could come mainly from exports.

[Question] So it is a necessity. The saying "export or die" is not just a slogan?

[Answer] In ancient Rome they used to say "Navigare necesse est," and I would say that in our present situation "Exportare necesse est."

[Question] If the rate at which we export goods was found to be insufficient as early as toward the end of last year, why were the new export incentives--I mean those which have been in operation since April--not introduced at the beginning of the year? It means that a lot of time has been wasted. At least 6 months.

[Answer] I would not really agree that they were introduced too late, as these matters are very complex. A country's exports, and in general its foreign trade, cannot be regarded as standing apart from the national economy. And especially in our particular situation, with the high inflation rate which acts as a development-hampering factor, it was necessary to take some time to calculate things and decide whether those export incentives, which in our situation must act as financial instruments, would not at the same time become factors encouraging inflation.

Let us consider the nature of exporting. We can say that exporting--particularly in a situation when, as our present case, we have a credit balance [as published [didatnie saldo]] in our balance of payments with the capitalist countries due to the necessity of servicing our debt--is equivalent to releasing a stream of our domestic means of payment onto the market, a stream which is not accompanied by a parallel stream of market goods. This is why, when considering any kind of financial incentives--and I am talking about finance in terms of our domestic currency--we must adopt a very cautious approach.

[PM051621] [Question] Minister, a lot is being said at present about changing our orientation toward CEMA countries. I am wondering whether we should not be talking about establishing stronger ties with them instead, as we have always oriented ourselves in our foreign trading toward the socialist community. How should the proportions be changed now between what goes to the first payments area [socialist countries] and what goes to the second payments areas [capitalist countries] so that we can arrive at a correct and rational balance? We have experienced for ourselves how undesirable it is to become dependent on the West, but we also know that we cannot buy all we need from our CEMA partners.

[Answer] I agree with you that the phrase "change of orientation" is not felicitous one, but it has already caught on in the language of the media and in politics. I have usually avoided using that term myself, for I am of the opinion that the socialist market has always been the most important one for our foreign trade, even in the 1970's, in spite of a certain temporary slackening of the rate of our economic cooperation with the countries belonging to the socialist community. The question of the change in foreign trade orientation has been extensively debated, and it was decided that it can involve a shift of several percentage points.

To answer your question in more detail, I would first of all wish to remind you that during the postwar years we have worked out a certain regular formula for our foreign trade turnover, which went as follows: 33 percent with the Soviet

Union; 33 percent with our remaining socialist partners, where the GDR and Czechoslovakia, as our neighbors, held the largest share; the remainder representing our turnover with the developed capitalist countries and with the Third World, with the latter playing a less important role. Today, in my opinion, we cannot determine in terms of percentages the point at which the shift in orientation should stop.

Since, however, we learnt our lesson at least twice in our postwar history--for we already had a dramatic decline in our economic cooperation with the West in the 1950's provoked by the West at the onset of the cold war--we should above all aim at extending our cooperation with the socialist countries within the framework of the socialist community, and search there for a solution of the key problem (as it is for us today) of technical and technological development. This, in point of fact, is a prerequisite of the successful outcome of all our other activity.

We have a government program, published in June 1983, regulating the question of our active cooperation with the Third World countries, and we should aim for reaching a situation whereby, at the beginning of the 1990's, the share of these countries in our foreign trade turnover would reach between 15 and 18 percent.

On the other hand, however, produce is indicated in our relations with the developed capitalist countries. We must not permit ourselves again to become as dependent on them as we were at the beginning of the 1980's. That dependence would not have been as dangerous as it turned out to be if our economic cooperation had not been given a political slant by the Western countries, the most obvious and drastic example of that politicization being the introduction, after 13 December 1981, of discriminatory economic restrictions by the United States as well as some other NATO countries.

[PM051622] [Question] We are currently preparing the 5-year plan to cover the second-half of the 1980's, and also a longer-term plan. What standing will be accorded in these to foreign trade?

[Answer] It is still too early to talk about these matters even in general terms as we are only at the stage of defining our basic premises and those tasks which we will propose to solve in the next 5-year plan, with the obvious provision that the final decision will--in keeping with the principle of the collectivization of the process of economic planning--rest with our parliament. I am convinced that foreign trade--or, to put it in more general terms, the question of our economic cooperation with other countries--will constitute one of the focal points around which the draft plan or, more precisely, draft options for the next 5-year plan are to be constructed.

[Question] But is it not possible to state now the preferable share of our export production in our total production which would insure that we do not find ourselves in a situation like our present one, where that share amounts to less than 13 percent?

[Answer] I would prefer not to state it in terms of percentages. The rate at which we export our goods and services to both foreign payments areas must be high enough to guarantee us a surplus of both negotiable currencies and transfer rubles which will enable us to service our debts comfortably without altering the basic importing requirements from either direction. Several years ago we envisaged the share of our export production in total production at 17 percent, but that was not calculated on the basis of any objective premises. It resulted from an extrapolation of the trends which were predominant in the mid-1970's.

[Question] At the conference on the conditions necessary for the development of our exports which took place at the Katowice branch of the Polish Economic Society you said that attitudes favoring exporting must originate with the producers. Will the opinion of the Katowice voivodship exporters, who provide one-fourth of all goods we sent abroad, influence the formulas of pro-exports solutions prepared for the next 5 years by our central planning organs and the Ministry of Foreign Trade?

[Answer] The Katowice voivodship is one of the most important centers in our country as regards our trade and cooperation with other countries. That region provides particularly significant inspiration.

CSO: 2600/1080

EAST-WEST TRADE PROBLEMS, PROSPECTS IN 1980's DISCUSSED

Warsaw HANDEL ZAGRANICZNY in Polish No 3, 1984 pp 19-21, 26

[Article by Marek Lubinski]

[Text] Many new events and tendencies appeared in East-West trade at the start of this decade. First, the rate of mutual turnovers dropped. Although in 1979 the export of the socialist countries¹ to the West increased 34 percent, and in 1980 by 22 percent, in 1981 a drop of 8 percent was recorded. The year 1982 was essentially a period of stability, for it would be difficult to call a 1 percent increase significant.² The figures mentioned represent export from the socialist countries taken as a whole; if they are examined separately, and especially if the USSR is excluded, a different picture emerges. Export from the Soviet Union in the late 1970's grew more rapidly than export from the East European countries (except for 1978), and during 1980-1981 it declined more slowly than did export from these countries. A particularly important difference appeared in 1982 when the USSR even increased its export while the other CEMA European countries reduced it quite considerably.

Import from East European countries during 1977-1980 rose from an absolute level of \$16.5 billion to \$25 billion. During the next 2 years a drop of \$8 was recorded, i.e., almost 32 percent. USSR purchases in the Western countries were also greatly reduced, but no absolute drop was recorded.

A comparison of the rate of change of import and export shows that the sizes of sales grew more rapidly or dropped more slowly than the sizes of purchases. As a result, the unfavorable balance of commodity turnovers gradually shrunk and in 1982 the socialist countries, for the first time since the mid-1960's, had a surplus trade balance. The USSR already had a favorable balance in 1981.

¹ By socialist countries it is understood here to mean the East European countries (i.e., the CEMA countries, excluding the USSR) and the Soviet Union.

² MONTHLY BULLETIN OF STATISTICS, United Nations, New York, March 1983.

³ ECONOMIC BULLETIN FOR EUROPE, United Nations, New York, 1982.

The fixed-price data show the unfavorable tendencies appearing in East-West relations more clearly than do the current-price data. During 1977-1981 the rate of export underwent a gradual reduction from plus 4 percent to minus 7 percent. It is true that in 1982 export grew slightly, but only as a result of the growth in USSR export, because the East European countries recorded a further drop, although to a lesser degree than in the previous year. Aside from 1982, the volume of Soviet Union export grew more slowly than that of the other countries.

In import the differences between the Soviet Union and the other socialist countries were even greater than in export. USSR import clearly grew, despite large fluctuations in the rate of growth. The drop in import from the East European countries began in 1980, and in 1982 it reached 21 percent. The decline in total imports was alleviated, therefore, only by import to the Soviet Union. East European export grew more rapidly or fell more slowly than import. For the Soviet Union as a rule import grew more rapidly than export. As a result, within the entire grouping, import expressed by volume generally showed a higher rate of growth than export.

Export prices in the socialist countries rose to 1980 inclusively, while in 1981-1982 their absolute level dropped slightly. Although general tendencies were similar, price changes in Soviet export rose more rapidly than in the other countries. Not until 1982 did the situation change and the drop in prices was larger. During 1981-1982 import prices, as distinct from previous periods, showed a slight drop, larger in the case of import to Eastern Europe than to the Soviet Union. In addition, USSR import prices fluctuated greatly from year to year, which also caused price fluctuations throughout the entire grouping.

The result of the import and export price movements is the establishment of terms of trade. Price ratios during the entire period studied were favorable for the Eastern countries, and also improved gradually during 1977-1981. Only in 1982 did they worsen slightly. But this does not in the least mean that all of the countries were in the same favorable position. The Eastern Europe terms of trade during 1976-1980 were below 100, with 1975 accepted as the base, and not until 1981-1982 did they achieve the starting level. The Soviet Union, however, steadily improved its exchange ratios with the Western countries. This had a definite effect on the favorable position of this entire group of countries.

Phenomena typical of overall export, i.e., a low growth rate and in certain cases a drop in absolute level, occurred in the trading of most commodities.⁴ In view of the basic differences in the assortment structure, the export of Eastern Europe and the Soviet Union must be treated separately.

The export of farm-food articles supplied on an average 13 percent of the foreign-exchange revenues of the East European countries, and during 1978-1981

⁴Information on the assortment and geographic structure of turnovers was taken from the MONTHLY STATISTICS OF FOREIGN TRADE, OECD, Paris, for 1979-1983.

there was a gradual drop in this share: from 14 percent to not quite 11 percent. In 1981 not only did the volume decrease by 13 percent, but also the value of import by \$2 billion. During 1979-1981 the share of mineral raw materials in the export of the East European countries also dropped 0.6 percent, and in 1981 even its absolute level decreased to \$1.5 billion. These occurrences were caused by a drop in the volume of this export during two successive years by 15 percent and 6 percent, a drop which was not compensated by a movement in prices.

The energy raw materials in 1981 were the most important item in the exports of East European countries to the West. Their share grew systematically from 15.2 percent in 1978 to 22.4 percent in 1981. Export value during this period increased from \$2.3 to \$4.2 billion. Even the reduction in the 1981 level did not affect the role of fuels in total exports. These changes were primarily the consequence of price movements, for volume grew at a moderate rate, on the order of 3 to 5 percent annually.

In addition to fuels and energy, chemical products are another group of commodities whose share in total sizes of sales grew steadily (from 7 percent to almost 10 percent). This export also grew in absolute figures, so that during 1980-1981 it totaled \$1.9 billion.

For industrial articles (groups 6, 7 and 8 according to the SITC [expansion unknown] classification, a slow but steady drop in share in the entire export of the East European countries to the West, due to unfavorable price tendencies, was characteristic. The changes in export of industrial products classified by material were caused by a drop in volume and prices combined. As a result industrial products in export fell from 54 percent to 47 percent. Considering the short period covered by the analysis, this difference is quite large.

In exports of the Soviet Union to the West mineral-derived raw materials and fuels dominate: in 1978 they constituted almost three-fourths of the entire value of export, and in 1981 the figure had reached 85 percent. Due to the present structure of exchange, USSR export is decidedly dependent on the situation in the crude oil and gas market. In 1981 this export was valued at almost \$9 billion. But it should be noted that the changes described are primarily the result of price movements.

Aside from the two mentioned, other industrial products classified by material deserve separate attention. Their share in USSR export, which was quite significant in 1978, dropped 4 years later to 5.7 percent, and most of this decline occurred during 1980-1981. In the 1980's, sales of chemical articles and investment goods decreased both relatively and absolutely. USSR export went through the same evolution as did export in the other socialist countries, except with greater intensity.

Farm-food products, chemical products and industrial products play a primary role in imports by socialist countries from the West. The import of farm-food articles grew during 1978-1981 by \$6 billion (from \$4.2 to 10.2 billion). It was accompanied by a large, almost two-fold growth in share to 22 percent. The volume of import also grew rapidly. Although during 1980-1981 the rate

slowed down somewhat, nevertheless it continued to remain high in the light of total imports. Import of chemical articles fluctuated greatly. As a result it is difficult to define clear directions of change. The fluctuations are mainly the result of volume movement. In the final analysis, the share of this group was determined to be approximately 14 percent, with value of imports approximately \$6 billion. Group 6 commodities, valued at about \$11 billion, constituted almost 24 percent of total imports in 1981. The drop in share during 1980-1981 was due to a decrease in volume of 3 and 1 percent.

The most important commodity group in imports by socialist countries, and also the basic industrial commodity, are investment goods. Import value in 1978 totaled \$13.6 billion, which was a share of almost 38 percent. In 1981 both amounts dropped, to \$11.7 billion and 26 percent, respectively. Investment goods are also the only commodity whose import value declined continuously since 1978. This is mainly due to the constant drop in volume. Group 8, in view of the distinct growth in share and volume, especially during the last 2 years of the period studied, occupies a special position in total imports and import of industrial products.

The comparison of changes occurring in import and export shows that in commodity exchanges between East and West, a gradual departure was taking place from industrial products to products of a lower degree of processing. If we include Groups 6 to 8, according to SITC classification, in the first group, it appears that their share in imports of East European countries totaled 54 percent and 47 percent up to 63 percent in 1981. Similar amounts in exports of the East European countries totaled 54 percent and 47 percent, and of the Soviet Union, 17 percent and 9 percent. The situation in individual socialist countries in their trade with the West varied. During 1976-1980 all of them recorded a growth in export. During this period the USSR, Bulgaria and Hungary had the highest average rate of growth of export to the West, and Poland had the lowest, although in each case it exceeded 10 percent. During 1981-1982, an equally general drop in export occurred, but in 1981 it did not affect Romania and in 1982 it did not affect the Soviet Union and the GDR. In 1981, Poland, Bulgaria, Czechoslovakia and Hungary had the largest deficit in trade with the capitalist countries. In 1982, Poland, Romania and Hungary suffered the largest decline in export.

The primary change which took place in the structure of import and export was the decline in the importance of Eastern Europe and its individual countries as suppliers and purchasers to the West, in favor of the Soviet Union. The USSR's share of export grew steadily from almost 48 percent in 1978 to 61 percent in 1982, and import from 46 percent to 60 percent. Imports in 1982 amounted to almost \$26 billion, and exports, \$28 billion. The GDR also plays a large part in trade between East and West. Its export, amounting to \$5.5 billion, and import on the order of \$4.6 billion, gives it an almost 11 percent share in turnovers. The GDR is also the only country, aside from the Soviet Union, which has increased its share in total exports. The reduction in the size of import is significant--it fell very greatly, by 14 percent in 1982, and if we omit intra-German trade, it dropped as much as 30 percent.

Of all of the socialist countries, Poland's share changed the most. In exports of socialist countries it dropped from 15 percent to 7 percent, and in the imports of this group of countries, from 16 percent to 3 percent. The changes in share were also accompanied by a reduction in value, \$3.2 and \$3.1 billion, respectively.

The main partners of the socialist countries are the countries of Western Europe, which altogether supplied from 80 percent to 70 percent of the total imports and purchased over 90 percent of the exports. The important trade partners of the socialist countries in Western Europe are the FRG, France, Austria, Italy, Sweden and Great Britain, with whom approximately 40 percent of the total turnovers were accomplished, and from the non-European countries, the United States and Japan. In 1982 the chief purchaser and supplier to the socialist countries was the Federal Republic of Germany, with an export valued at \$7.2 billion and import, \$8.5 billion. The situation of the United States was different. It supplied a large part of the total imports of the socialist countries and only to a small and shrinking degree participated in their exports. The situation of Japan is similar from that standpoint. Turnovers with France, whose role as a purchaser of commodities from the socialist countries steadily grew, underwent changes. Italy, just as Great Britain, played a much larger part in the capitalist-country group as an importer than and exporter.

Many factors served to change the East-West trade situation. Generally speaking, at the end of the 1970's the factors which stimulated trade in the previous period weakened, and at the same time a slowdown in this trade occurred.⁵ The general reduction in the growth rate of production in both the capitalist and socialist countries was tantamount to a lessening in overall demand, including requirements for imported goods. Imports in the developed capitalist countries, after a relatively rapid growth during 1978-1979, dropped during the following 2 years in absolute terms, and showed only a 1 percent increase in 1982.

The worsening of the balance of payments in the socialist countries had an important effect on East-West trade at the end of the 1970's and the beginning of the 1980's. Several factors contributed to this. First, the indebtedness of most of the socialist countries exceeded acceptable limits. Second, the growth in interest rates increased the balance of payments by the debt-servicing. Third, the factor which affected at least some of the socialist countries was the withdrawal, by the capitalist countries, of deposits from the socialist countries (for example, in the first quarter of 1981, deposits totaling \$1 billion were withdrawn from Hungary). Fourth, in the second half of 1981, the possibilities of borrowing were exhausted because of Poland's and Romania's payments difficulties and the deterioration of political relations between the East and the West.

As a result, the socialist countries began to be cautious about increasing their financial obligations to foreign countries, and the Western banks were afraid to grant further credit. Regardless of which of these reasons was of decisive importance, it is a fact that the socialist countries' access to

⁵ See Determinants of East-West Trade.

international capital markets remains restricted. The amounts of credit made available in 1979-1981 decreased over three-fold. This tendency remained during 1982. It should be stressed, however, that the policy of granting credits by the governments of the Western countries was not uniform. Some of them continued to be interested in granting credits in order to stimulate the export of investment goods.

The socialist countries tried to adapt to the strains in the balances of payments by internal and external accommodation mainly through pressure on a growth of export to the West while, at the same time, decreasing the rate of economic growth and the amounts of import, which was supposed to prevent further increases in indebtedness. However, the growth of export encountered difficulties stemming from reductions of imports and from the economic recession in the West. A reduction in interest rates helped to improve the balance of payments of the socialist countries in 1982, which lessened the burden caused by repayment of trade credits.

The effect of the economic situation and strains in the payments balance reflected variously on the turnovers of particular commodity groups. The basic factor which determines the commodity structure of export of individual countries are import priorities of the socialist countries. These refer mainly to farm-food articles and raw materials and supply commodities for industry. But these priorities are in large measure dependent upon the balance of payments situation. During 1981-1982 preferences for consumer goods for the domestic market were revealed in a sharp growth of import and a drop in export of farm products from the socialist countries. The favorable situation in the agriculture of the capitalist countries was conducive to this. Grain agreements between the USSR and Canada and the United States had an important influence on the development of exchange.

The import of mineral-derived raw materials by the Western countries was affected primarily by the economic recession, the tendency to reduce reserve stocks, and measures taken to reduce the materials-intensiveness of production. The result was a decline in the importance of this commodity group in mutual turnovers. The rapid growth of export of energy raw materials to the West was stimulated by the growth of production capacity in the socialist countries, the policy of the Western governments aimed at diversifying sources of supply, and interregional cooperation in this area. But in the very near future we should expect a reduction in deliveries of these raw materials in view of the reductions in supplies now appearing in the East European countries.

The factors affecting turnovers of industrial products were the most complex. The import of investment goods to the socialist countries was affected primarily by the reduction in development programs. In addition, the market became saturated, which put a halt to the growth of import. At the turn of the 1970's there was also observed a reduction in the pace of compensation transactions, which Western deliveries of investment goods anticipated in return for the products produced with their help. This was due to the underutilization of production capacity in the Western countries, fear that antimonopoly legislation will be introduced, and import restrictions. Regardless of the obstacles mentioned, the socialist countries continue to be interested in developing this form of cooperation. The development of productive cooperation also declined.

As to the export of industrial products, the socialist countries met with growing competition from the newly industrialized countries. These countries frequently produce the goods which have been traditionally supplied by the socialist countries. At the same time, the structure of their export is adapted to the avoidance of the most severe trade restrictions. In addition, the position of these countries enhances their preferential treatment.

Also complicating the expansion of trade were the growing protectionist tendencies, appearing mainly in the form of nontariff restrictions applied by the capitalist countries. They served to protect domestic producers against foreign competition, particularly in areas which are highly sensitive to changes in the economy, as, for example, the steel industry. This does not mean in the least that the tendency towards liberalization of turnovers was totally halted.

The attempt to overcome the above difficulties was a "tied" trade -- counter-trade [in English]. The socialist countries are interested in this form of exchange because it allows them to avoid strains in the balance of payments, to overcome unfavorable tendencies in demand, to avoid import restrictions in the Western countries, and to bring new products into the market. Thus far, this form of trade plays no great part in practice in view of a lack of interest by Western partners.

Supply restrictions also slowed down the export of socialist countries. First of all, many of the goods exported were produced with the help of components imported from abroad. Payment difficulties made it necessary to restrict this type of import, and consequently, reduce production and export. Second, in the case of market goods, the domestic market had priority. Third, some countries increased their export to the USSR in order to pay for imports of crude oil. This reduced the supply of part of the previously sold goods on the Western markets.

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Generally speaking, it will be difficult to expect that East-West trade will grow unless the economic situation in the capitalist countries improves substantially. This improvement would lead to a demand for the raw materials traditionally exported by the socialist countries and would facilitate the access of industrial products to the market. But if mutual exchange is to grow, the economic sanctions applied against Poland and the USSR must be lifted. The sanctions have reduced both imports and exports. An assessment of the influence of these sanctions on trade is quite difficult. It is estimated, for example, that the decision of the EEC countries to decrease by 50 percent 59 goods from the Soviet Union will cause this export to drop 2 percent, as compared with the 1980 level. Irrespective of an assessment of the direct economic affects of the sanctions, there is no doubt that they contributed to the deterioration of the climate in East-West economic cooperation.

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